

# PRESIDENT CLINTON, VICE PRESIDENT GORE, AND CONGRESSIONAL DEMOCRATS WIN ON THE BUDGET, BUT THERE IS STILL MORE WORK TO DO

*October 15, 1998*

The final FY99 budget represents a significant step forward for America, protecting the surplus until Social Security is reformed, forging a bipartisan agreement on funding the International Monetary Fund, and putting in place critical investments in education and training, from smaller class sizes to after-school care, and from summer jobs to college mentoring. While the final budget is clearly a win for President Clinton, Vice President Gore, and Congressional Democrats, there is still more work to do to prepare America for the 21st century. Unfortunately, Republicans blocked school modernization, Patients Bill of Rights, comprehensive tobacco legislation, child care investments, and campaign finance reform.

## Budget Victories:

**Saving Social Security First.** The President's commitment to Save Social Security First held the line against several Republican efforts to drain the surplus.

**Investing in Education and Training.** While House Republican tried to slash their education budget by over \$2 billion, President Clinton and Congressional Democrats delivered on their education agenda:

- ✓ **More High-Quality Teachers With Smaller Class Sizes:** \$1.2 billion for the first year of the President's new initiative to hire 100,000 new teachers to reduce class size in the early grades to a national average of 18. Through smaller classes this initiative will help recruit high-quality teachers and will insure that students will receive more individual attention, a solid foundation in the basics, and greater discipline in the classroom.
- ✓ **After School Programs:** \$200 million to expand programs and serve a quarter of a million children.
- ✓ **Child Literacy:** \$260 million for a new literacy initiative, consistent with the President's America Reads proposal.
- ✓ **College Mentoring for Middle School Children:** \$121 million for GEAR-UP, a new mentoring initiative to help up to 100,000 low income middle school children prepare for college.
- ✓ **Education Technology:** A \$145 million increase to ensure that every child has access to computers, the Internet, high-quality educational software, and teachers that can use techno/logy in the classroom.
- ✓ **Child Care Quality:** \$182 million to improve the quality of child care for America's working families.
- ✓ **Teacher Recruitment:** \$75 million for new teacher quality programs including to recruit and prepare thousands of teachers to teach in high-poverty areas.
- ✓ **Head Start:** A \$313 million increase to fund President's request of up to an additional 36,000 slots for children and keeping on track towards one million children served by 2002.
- ✓ **Charter Schools:** A 25% increase in funding for Charter Schools to keep on track toward 3,000 quality charter schools early in next century.
- ✓ **Hispanic Education Initiative:** Increases of \$524 million to enhance educational opportunities.
- ✓ **Pell Grants:** The largest maximum award ever for Pell grants -- \$3,125 a year per eligible student.
- ✓ **Summer Jobs:** \$871 million to provide up to 530,000 young people Summer Jobs.

**Investing in a Cleaner Environment.** President Clinton won important new investments to combat water pollution, protect national parks, natural forests, and other public lands, restore salmon and other endangered species, and develop clean energy technologies and defeated many anti-environment riders:

- ✓ \$1.7 billion for the President's **Clean Water Action Plan**.
- ✓ \$325 million to preserve **precious lands**.
- ✓ A 23 percent increase to protect threatened **endangered species**.
- ✓ More than \$1 billion, a 25 percent increase, to fight **global warming**.

**Responding to the Farm Crisis at Home.** The final budget includes about \$6 billion in emergency assistance to farmers, ranchers, and their families -- \$1.7 billion over the vetoed agriculture bill.

**And to the Financial Turmoil Abroad.** The final budget includes the President's full funding request of \$17.9 billion for the IMF.

**Moving People from Welfare to Work and Empowering Communities.** President Clinton and Vice President Gore are committed to tapping the potential of America's urban and rural communities. This budget moves forward on their vision to help revitalize America's communities.

- ✓ **Welfare to Work Housing Vouchers:** \$283 million for 50,000 vouchers.
- ✓ **Access to Jobs:** \$75 million to link people on welfare to jobs.
- ✓ **Community Development Financial Institutions (CDFI) Fund:** A 20% expansion.
- ✓ **Empowerment Zones:** \$60 million in flexible funding.

**A Strong Research and Development Agenda.** The President's budget included an unprecedented commitment to key civilian research. The final budget includes many increases in priority areas:

- ✓ **National Science Foundation:** A 7 percent increase in support for science and engineering research.
- ✓ **National Institutes of Health:** A 14 percent, \$1.9 billion increase to support greater research on diabetes, cancer, genetic medicine, and the development of an AIDS vaccine.
- ✓ **Next Generation Internet:** More than \$100 million for a Federal R&D initiative which will connect more than 100 universities at speeds that are up to 1,000 times faster than today's Internet.
- ✓ **Advanced Technology Program:** About \$70 million for new awards for leading-edge civilian technology projects.

#### **Other Highlights:**

- ✓ **EEOC:** A \$37 million increase to reduce the average time it takes to resolve private sector complaints and reduce the backlog of cases.
- ✓ **Fighting Abusive Child Labor:** A 10-fold increase, from \$3 million to \$30 million, in our commitment to the International Programme for the Elimination of Child Labor (IPEC).
- ✓ **Police on the Street:** Funding for 17,000 additional Community Oriented Police Services (COPS) Program police officers toward the President's goal of 100,000 additional officers by 2000.
- ✓ **Food Safety Initiative:** \$75 million to expand food safety research, risk assessment capabilities, education, surveillance activities, and food import inspections
- ✓ **HIV/AIDS Prevention and Treatment:** An unprecedented over \$350 million increase to help prevent and treat HIV/AIDS, with special efforts to address the needs of the minority community.

## Much Work Still Left to Do:

In the waning days of the session, the President and Congressional Democrats prevailed in making critical investments to advance the President's comprehensive education agenda. Much work remains for the future because Republicans in Congress killed, at least for now, critical priorities, including:

- X **School Modernization.** Beginning with his State of the Union address, the President fought all year to modernize our schools. His fully paid for tax credits would have leveraged nearly \$22 billion in bonds to build and renovate schools. In the final days of the budget negotiations, Republicans in Congress refused to even meet on the critical issue of school construction.
- X **Patients Bill of Rights.** President Clinton repeatedly urged the Congress to pass a strong, enforceable patients' bill of rights that would assure Americans the quality health care they need. Congressional Republicans killed this year's effort to pass a Patients Bill of Rights.
- X **Comprehensive Tobacco Legislation.** This year, President Clinton made passage of legislation to reduce youth smoking a top priority, in order to stop kids from smoking before they start through a significant price increase, measures to prevent tobacco companies from marketing to children, and critical public health prevention and education programs. Congressional Republicans opted to act as politicians instead of parents, and killed this year's effort to pass bipartisan comprehensive tobacco legislation to reduce youth smoking.
- X **Campaign Finance Reform.** At the beginning of the year, the President made passage of bipartisan, comprehensive campaign finance reform a priority for his Administration. After months of delay, the House of Representatives overcame defenders of the status quo and passed the Shay-Meehan bill. However, the Senate Republicans killed this historic legislation.
- X **Child Care Initiative.** In his State of the Union, the President proposed an historic child care initiative to make child care better, safer and more affordable for America's working families. The President's proposal included \$7.5 billion over 5 years for child care subsidies for low-income working families and tax credits to help 3 million working families pay for child care. The Republicans refused to support these critical investments.
- X **Work Incentives Bill for People with Disabilities.** At the commemoration of the Americans with Disabilities Act last July, the President endorsed the bipartisan Jeffords-Kennedy bill that enables people with disabilities to go back to work by providing an option to buy into Medicaid and Medicare, as well as other pro-work initiatives. This bill was on the list of top Administration priorities in the final budget negotiations, but rejected by Republicans. The President will continue to fight to give people with disabilities the opportunity to work --including the critical health insurance that makes work possible.
- X **Speeding Toxic Cleanups.** President Clinton called for an additional \$650 million -- a 40 percent increase -- to accelerate Superfund cleanups with a goal of completing a total of 900 cleanups by 2001. The Republican majority refused these funds, threatening to delay cleanup at up to 171 sites across the country.

**PRESIDENT CLINTON, VICE PRESIDENT GORE, AND  
CONGRESSIONAL DEMOCRATS WIN ON THE BUDGET,  
BUT THERE IS STILL MORE WORK TO DO**

**TABLE OF CONTENTS**

- I. Education and Training Budget Chart
- II. 3-Page Budget Overview
- III. Budget Victories for President Clinton, Vice President Gore, and Congressional Democrats (11 pages)
- IV. Despite All the Progress in this Year's Budget, There Is Still More Work Left to Do

**PRESIDENT CLINTON, VICE PRESIDENT GORE, AND CONGRESSIONAL DEMOCRATS WIN ON THE EDUCATION AND TRAINING BUDGET**

	<b>PRESIDENT'S REQUEST</b>	<b>HOUSE REPUBLICAN BUDGET</b>	<b>FINAL BUDGET</b>	<b>DIFFERENCE (BETWEEN HOUSE &amp; FINAL)</b>
<b>Smaller Class Sizes</b>	\$1.1 billion	\$0	<b>\$1.2 billion</b>	<b>+\$1.2 billion</b>
<b>Child Literacy (America Reads)</b>	\$260 million	\$0	<b>\$260 million</b>	<b>+\$260 million</b>
<b>College Mentoring (GEAR-UP)</b>	\$140 million	\$0	<b>\$120 million</b>	<b>+\$120 million</b>
<b>Summer Jobs</b>	\$871 million	\$0	<b>\$871 million</b>	<b>+\$871 million</b>
<b>Youth Opportunities Area</b>	\$250 million	\$0	<b>\$250 million</b>	<b>+\$250 million</b>
<b>Teacher Preparation and Recruitment</b>	\$67 million	\$0	<b>\$75 million</b>	<b>+\$75 million</b>
<b>Title I (Basic Skills)</b>	\$392 million increase (\$7.767 billion)	\$0 (\$7.375 billion)	<b>\$301 million increase (\$7.676 billion)</b>	<b>+\$301 million</b>
<b>Education Technology</b>	\$721 million	\$541 million	<b>\$698 million</b>	<b>+\$157 million</b>
<b>After-School Programs</b>	\$200 million	\$60 million	<b>\$200 million</b>	<b>+\$140 million</b>
<b>Goals 2000</b>	\$501 million	\$246 million	<b>\$491 million</b>	<b>+\$245 million</b>
<b>Head Start</b>	\$313 million increase (\$4.66 billion)	\$153 million increase (\$4.50 billion)	<b>\$313 million increase (\$4.66 billion)</b>	<b>+\$160 million</b>
<b>School Modernization</b>	\$5 billion over five years	\$0	<b>\$0</b>	-
<b>Education Opportunity Zones</b>	\$200 million	\$0	<b>\$0</b>	-

# PRESIDENT CLINTON, VICE PRESIDENT GORE, AND CONGRESSIONAL DEMOCRATS WIN ON THE BUDGET, BUT THERE IS STILL MORE WORK TO DO

*October 15, 1998*

The final FY99 budget represents a significant step forward for America, protecting the surplus until Social Security is reformed, forging a bipartisan agreement on funding the International Monetary Fund, and putting in place critical investments in education and training, from smaller class sizes to after-school care, and from summer jobs to college mentoring. While the final budget is clearly a win for President Clinton, Vice President Gore, and Congressional Democrats, there is still more work to do to prepare America for the 21st century. Unfortunately, Republicans blocked school modernization, Patients Bill of Rights, comprehensive tobacco legislation, child care investments, and campaign finance reform.

## Budget Victories:

**Saving Social Security First.** The President's commitment to Save Social Security First held the line against several Republican efforts to drain the surplus.

**Investing in Education and Training.** While House Republican tried to slash their education budget by over \$2 billion, President Clinton and Congressional Democrats delivered on their education agenda:

- ✓ **More High-Quality Teachers With Smaller Class Sizes:** \$1.2 billion for the first year of the President's new initiative to hire 100,000 new teachers to reduce class size in the early grades to a national average of 18. Through smaller classes this initiative will help recruit high-quality teachers and will insure that students will receive more individual attention, a solid foundation in the basics, and greater discipline in the classroom.
- ✓ **After School Programs:** \$200 million to expand programs and serve a quarter of a million children.
- ✓ **Child Literacy:** \$260 million for a new literacy initiative, consistent with the President's America Reads proposal.
- ✓ **College Mentoring for Middle School Children:** \$120 million for GEAR-UP, a new mentoring initiative to help up to 100,000 low income middle school children prepare for college.
- ✓ **Education Technology:** A \$114 million increase over FY98 to ensure that every child has access to computers, the Internet, high-quality educational software, and teachers that can use techno/logy in the classroom.
- ✓ **Child Care Quality:** \$182 million to improve the quality of child care for America's working families.
- ✓ **Teacher Recruitment:** \$75 million for new teacher quality programs including to recruit and prepare thousands of teachers to teach in high-poverty areas.
- ✓ **Head Start:** A \$313 million increase to fund President's request of up to an additional 36,000 slots for children and keeping on track towards one million children served by 2002.
- ✓ **Charter Schools:** A 25% increase in funding for Charter Schools to keep on track toward 3,000 quality charter schools early in next century.
- ✓ **Hispanic Education Initiative:** Increases of \$524 million to enhance educational opportunities.
- ✓ **Pell Grants:** The largest maximum award ever for Pell grants -- \$3,125 a year per eligible student.
- ✓ **Summer Jobs:** \$871 million to provide up to 530,000 young people Summer Jobs.

**Investing in a Cleaner Environment.** President Clinton won important new investments to combat water pollution, protect national parks, natural forests, and other public lands, restore salmon and other endangered species, and develop clean energy technologies and defeated many anti-environment riders:

- ✓ **\$1.7 billion for the President's Clean Water Action Plan.**
- ✓ **\$325 million to preserve precious lands.**
- ✓ **A 23 percent increase to protect threatened endangered species.**
- ✓ **More than \$1 billion, a 26-percent increase, to fight global warming.**

**Responding to the Farm Crisis at Home.** The final budget includes about \$6 billion in emergency assistance to farmers, ranchers, and their families -- \$1.7 billion over the vetoed agriculture bill.

**And to the Financial Turmoil Abroad.** The final budget includes the President's full funding request of \$17.9 billion for the IMF.

**Moving People from Welfare to Work and Empowering Communities.** President Clinton and Vice President Gore are committed to tapping the potential of America's urban and rural communities. This budget moves forward on their vision to help revitalize America's communities.

- ✓ **Welfare to Work Housing Vouchers:** \$283 million for 50,000 vouchers.
- ✓ **Access to Jobs:** \$75 million to link people on welfare to jobs.
- ✓ **Community Development Financial Institutions (CDFI) Fund:** A 20% expansion.
- ✓ **Empowerment Zones:** \$60 million in flexible funding.

**A Strong Research and Development Agenda.** The President's budget included an unprecedented commitment to key civilian research. The final budget includes many increases in priority areas:

- ✓ **National Science Foundation:** A 7 percent increase in support for science and engineering research.
- ✓ **National Institutes of Health:** A 14 percent, \$1.9 billion increase to support greater research on diabetes, cancer, genetic medicine, and the development of an AIDS vaccine.
- ✓ **Next Generation Internet:** More than \$100 million for a Federal R&D initiative which will connect more than 100 universities at speeds that are up to 1,000 times faster than today's Internet.
- ✓ **Advanced Technology Program:** About \$70 million for new awards for leading-edge civilian technology projects.

#### **Other Highlights:**

- ✓ **EEOC:** A \$37 million increase to reduce the average time it takes to resolve private sector complaints and reduce the backlog of cases.
- ✓ **Fighting Abusive Child Labor:** A 10-fold increase, from \$3 million to \$30 million, in our commitment to the International Programme for the Elimination of Child Labor (IPEC).
- ✓ **Police on the Street:** Funding for 17,000 additional Community Oriented Police Services (COPS) Program police officers toward the President's goal of 100,000 additional officers by 2000.
- ✓ **Food Safety Initiative:** \$79 million to expand food safety research, risk assessment capabilities, education, surveillance activities, and food import inspections
- ✓ **HIV/AIDS Prevention and Treatment:** An unprecedented over \$350 million increase to help prevent and treat HIV/AIDS, with special efforts to address the needs of the minority community.

## Much Work Still Left to Do:

In the waning days of the session, the President and Congressional Democrats prevailed in making critical investments to advance the President's comprehensive education agenda. Much work remains for the future because Republicans in Congress killed, at least for now, critical priorities, including:

- X **School Modernization.** Beginning with his State of the Union address, the President fought all year to modernize our schools. His fully paid for tax credits would have leveraged nearly \$22 billion in bonds to build and renovate schools. In the final days of the budget negotiations, Republicans in Congress refused to even meet on the critical issue of school construction.
- X **Patients Bill of Rights.** President Clinton repeatedly urged the Congress to pass a strong, enforceable patients' bill of rights that would assure Americans the quality health care they need. Congressional Republicans killed this year's effort to pass a Patients Bill of Rights.
- X **Comprehensive Tobacco Legislation.** This year, President Clinton made passage of legislation to reduce youth smoking a top priority, in order to stop kids from smoking before they start through a significant price increase, measures to prevent tobacco companies from marketing to children, and critical public health prevention and education programs. Congressional Republicans opted to act as politicians instead of parents, and killed this year's effort to pass bipartisan comprehensive tobacco legislation to reduce youth smoking.
- X **Campaign Finance Reform.** At the beginning of the year, the President made passage of bipartisan, comprehensive campaign finance reform a priority for his Administration. After months of delay, the House of Representatives overcame defenders of the status quo and passed the Shay-Meehan bill. However, the Senate Republicans killed this historic legislation.
- X **Child Care Initiative.** In his State of the Union, the President proposed an historic child care initiative to make child care better, safer and more affordable for America's working families. The President's proposal included \$7.5 billion over 5 years for child care subsidies for low-income working families and tax credits to help 3 million working families pay for child care. The Republicans refused to support these critical investments.
- X **Work Incentives Bill for People with Disabilities.** At the commemoration of the Americans with Disabilities Act last July, the President endorsed the bipartisan Jeffords-Kennedy bill that enables people with disabilities to go back to work by providing an option to buy into Medicaid and Medicare, as well as other pro-work initiatives. This bill was on the list of top Administration priorities in the final budget negotiations, but rejected by Republicans. The President will continue to fight to give people with disabilities the opportunity to work --including the critical health insurance that makes work possible.
- X **Speeding Toxic Cleanups.** President Clinton called for an additional \$650 million -- a 40 percent increase -- to accelerate Superfund cleanups with a goal of completing a total of 900 cleanups by 2001. The Republican majority refused these funds, threatening to delay cleanup at up to 171 sites across the country.

# PRESIDENT CLINTON, VICE PRESIDENT GORE, AND CONGRESSIONAL DEMOCRATS WIN ON THE BUDGET

October 15, 1998

## Saving Social Security First

In his State of the Union address, President Clinton asked a basic question -- "what should we do with this projected surplus?" -- and gave an historic four-word answer: "Save Social Security First." With our fiscal house in order, marked by the first budget surplus in a generation, President Clinton is determined to seize this unique opportunity to strengthen this most important program for generations to come. Protecting the surplus is a key step towards enacting Social Security reform. President Clinton defeated repeated efforts to squander the surplus and, at the end of this Congress, it remains intact.

## Invests in Education and Training

In the face of House Republican efforts to slash their education budget by more than \$2 billion, President Clinton and Vice President Gore delivered on their education agenda:

### NEW EDUCATION AND TRAINING INITIATIVES IN FINAL BUDGET AGREEMENT:

- ✓ **More High-Quality Teachers With Smaller Class Sizes.** In his State of the Union address, President Clinton said, "Tonight, I propose the first-ever national effort to reduce class size in the early grades. My balanced budget will help to hire 100,000 new teachers." Throughout the year, Republicans failed to consider this important initiative. The final budget provides \$1.2 billion for the first year of the President's new initiative to hire 100,000 new, well-prepared teachers, to reduce class sizes in the early grades to a national average of 18.
- ✓ **GEAR-UP: College Mentoring Initiative To Help Up to 100,000 Students Prepare for College.** In his State of the Union address, President Clinton urged Congress "to support our efforts to enlist colleges and universities to reach out to disadvantaged children, starting in the 6th grade, so that they can get the guidance and hope they need so they can know that they, too, will be able to go on to college." The President proposed \$140 million to get this effort started, but the House appropriations bill denied funding and the Senate provided only \$75 million. The final budget provides \$120 million for this new initiative which was authorized as part of the higher education legislation enacted on October 7th. GEAR-UP will expand mentoring efforts by States, and provide new grants to partnerships of middle schools, institutions of higher education, and community organizations, to provide intensive early intervention services to help prepare up to 100,000 students at high-poverty middle schools for college.
- ✓ **Child Literacy Initiative to Help Children Read Well By the End of the Third Grade.** In 1996, President Clinton proposed an America Reads Challenge to help three million children improve their reading skills. In 1997, he insisted that the new initiative be included as part of the Balanced Budget Agreement. With this budget, he has won the \$260 million that he proposed to help ensure that all children can read well and independently by the end of third grade. The budget includes the legislation creating a program that is consistent with the President's America Reads proposal. The new program will provide competitive grants to States to (1) improve teachers' ability to teach reading effectively; (2) promote family literacy programs to help parents be their child's first teacher; and (3) improve the quality of tutoring programs by supporting tutor training.

- ✓ **Youth Opportunity Areas To Help Increase Job Opportunities for 50,000 Youth in High-Poverty Communities.** Authorized in the Workforce Investment Act, President Clinton's Youth Opportunity Grants to direct resources to high-poverty areas, including Empowerment Zones and Enterprise Communities, to provide comprehensive services designed to increase employment and school completion rates for disadvantaged youth. The President's FY99 budget included \$250 million for this new innovative program. While the House Republican budget did not fund this critical initiative, the final agreement includes the full \$250 million request, which will help provide job training and social services to 50,000 youth.
- ✓ **New Learning Anytime, Anywhere Initiative.** The President's FY99 budget included a new initiative to enhance and promote distance learning opportunities -- learning outside the usual classroom settings, via computers and other technology -- for all adult learners. The final budget includes \$20 million for the Education and Labor Departments to implement this new initiative to demonstrate new high-quality uses of technology for distance learning in post-secondary education and training, and to help provide more accurate labor market information.
- ✓ **Teacher Recruitment and Preparation -- \$75 million.** On October 7th, President Clinton signed legislation that had incorporated the President's Teacher Recruitment and Preparation proposal. While House Republicans did not fund this important initiative, the final budget provides \$75 million, which will help recruit and prepare thousands of teachers to teach in high-poverty urban and rural communities and will strengthen teacher preparation programs across the country.
- ✓ **Training New Teachers to Use Technology Effectively.** President Clinton's FY99 budget requested \$75 million to train new teachers in how to use technology to improve student achievement. The House and Senate Republicans denied the request. The final agreement includes the full \$75 million the President requested.
- ✓ **Hispanic Education Action Plan To Attack Unacceptably High Drop-Out Rate.** Because the high-school drop-out rate of Hispanics is unacceptably high, President Clinton's FY99 budget included the first-ever Hispanic Education Action Plan. As part of this plan, the President proposed significant increases in Title I funding and a number of other programs that enhance educational opportunity for Hispanic Americans. The final budget includes increases of \$524 million for these programs; for example, it provides a \$301 million increase for Title I; \$600 million for TRIO college preparation programs, an increase of \$70 million over FY 1998, which will provide support services for over 700,000 students; and \$50 million for Bilingual Education Professional Development -- double the FY 1998 level -- to begin to provide 20,000 teachers over five years with the training they need to teach Limited English Proficient students.

**EXPANDED KEY EDUCATION AND TRAINING INVESTMENTS:**

- ✓ **Expanded After-School Programs To Serve A Quarter of A Million Children.** In his State of the Union address, President Clinton asked Congress to "dramatically expand our support for after-school programs." The President and Vice President proposed \$200 million for after-school programs in their FY99 budget. While the House Republican budget did not fund \$140 million of the President's and Vice President's request, which would have denied services to about 175,000 children, the final budget includes full funding for the President's and Vice President's initiative, which will serve a quarter of a million children each year.

- ✓ **Expanded Head Start.** President Clinton proposed a \$313 million increase for Head Start to add 30,000 to 36,000 new slots for children, continuing on the path to serving one million children by 2002. The House Republican budget did not provide the President's increase and would have denied up to 25,000 children Head Start slots if enacted. The final budget includes the President's full increase for Head Start, which is funded at \$4.660 billion.
- ✓ **Summer Jobs Protected for Half a Million Youth.** While House Republicans attempted to eliminate the successful Summer Jobs program, President Clinton prevailed with his request for \$871 million in funding, which will finance up to 530,000 summer jobs for disadvantaged youth.
- ✓ **Expanded Educational Technology -- Connecting Our Children to the Future.** President Clinton's and Vice President Gore's budget requested \$721 million -- a \$137 million increase -- for educational technology to ensure that every child has access to computers, the Internet, high-quality educational software, and teachers that can use technology effectively in the classroom. The House Republican denied the President's and Vice President's request for a funding increase, cutting funding \$43 million below last year. The final agreement includes \$698 million -- a 20-percent increase over the \$584 million funding level in FY98, including the new \$75 million initiative for training new teachers and \$10 million for new grants to public-private partnerships in low-income communities to provide residents access to computer facilities for educational and employment purposes. Education technology has always been a top priority for the President and Vice President; since 1993, they have created the Technology Literacy Challenge Fund and increased overall investments in educational technology by thirty-fold, from \$23 million to \$698 million this year.
- ✓ **Protected Goals 2000 to Promote High Academic Standards.** President Clinton created Goals 2000 in 1993 to promote high academic standards for all students and proposed a modest expansion in this year's budget. While the House Republican budget tried to cut the program in half, the final budget includes \$491 million which will help all 50 States continue raise academic standards and help at least 12,000 schools implement innovative and effective education reforms.
- ✓ **Improved Child Care Quality.** In his State of the Union, the President proposed an historic child care initiative to make child care better, safer and more affordable for America's working families. While the budget does not include critical investments in subsidies and tax credits to help working families pay for child care, it does include the President's request of \$182 million to improve the quality of child care.
- ✓ **Expanded Work Study To Help Nearly One Million Students Work Their Way Through College.** President Clinton's FY99 budget included a significant expansion of the Federal Work Study program. The final budget agreement provides \$870 million -- a \$40 million increase over the FY 1998 level of \$830 million -- which will allow nearly one million students to work their way through college and keeps us on track to the President's goal of one million students in work study by the year 2000.
- ✓ **Expanded Job Training To Help 666,000 Dislocated Workers.** President Clinton's FY99 budget included a significant expansion in the dislocated worker program. While the House froze job training funds for dislocated workers, the final agreement includes \$1.4 billion

which will help some 666,000 dislocated workers get the training and reemployment services they need to return to work as quickly as possible. This represents an increase of \$55 million -- to help 27,000 dislocated workers -- compared to FY98. Since 1993, dislocated worker funding has been expanded by 171 percent -- helping to well more than double the number of workers served.

- ✓ **Expanded Charter Schools to Promote Creation High-Quality Public Schools.** President Clinton's FY99 budget included \$100 million for Charter Schools to keep us on track toward the President's goal of creating 3,000 high-quality public charter schools that will educate more than half a million students by early in the next century. Charter schools are public schools started by teachers, parents and communities, that are given flexibility in decision-making, in exchange for high levels of accountability for results. The final budget provides \$100 million -- the President's 25-percent increase -- for Charter Schools and will give parents and students more choice, better schools, and greater accountability for results in public education.
- ✓ **Assistance to Help Over 400,000 More Students in Distressed Communities Learn Basic Skills.** President Clinton proposed a \$392 million increase in Title I funding to help students in high poverty communities receive the extra help they need to master the basics to reach high academic standards. The House Republican budget proposed a freeze in Title I funding. The final budget provides a \$301 million increase, from \$7.375 billion in FY98 to \$7.676 billion in FY99. This funding will support educational services for nearly 11 million students, over 400,000 more than last year.
- ✓ **Largest Maximum Pell Grant Award Ever.** Last year, President Clinton signed into law the largest one-year increase in Pell Grant scholarships in 20 years. This year, the final budget provides \$7.7 billion for Pell Grants, an increase of \$359 million over FY98, increasing the maximum Pell Grant award from \$3,000 to \$3,125 -- that's the largest maximum award ever, 36-percent higher than it was in 1994. This year, approximately 4 million students will receive Pell Grant awards.
- ✓ **Extends Trade Adjustment Assistance (TAA).** President Clinton proposed extending TAA and NAFTA-TAA in his FY99 budget in order to provide training and income support to workers adversely impacted by trade. The final budget extends these important programs through June 30, 1999.

## **Moves Forward On The Environment**

In the final budget, President Clinton won important increases to combat water pollution, protect national parks and other precious lands, restore salmon and other endangered species, and develop clean energy technologies. At the same time, President Clinton forced Congress to drop special-interest riders that would have cut roads through wilderness, forced overcutting on our national forests, crippled wildlife protections, and blocked common-sense actions to address global warming.

- ✓ **Clean, Safe Water for America.** The final budget provides \$1.7 billion -- an additional \$230 million or 16-percent increase from last year -- for the President's Clean Water Action Plan, a five-year initiative to help communities and farmers clean up the almost 40 percent of America's surveyed waterways still too polluted for fishing and swimming. In addition, the budget provides states \$2.15 billion in financing for clean water construction projects.

- ✓ **Preserving Precious Lands.** An additional \$325 million for FY99 -- a \$55 million increase from last year -- through the Land and Water Conservation Fund will be used to acquire dozens of natural and historic sites around the country, including critical winter range for Yellowstone bison, New Mexico's Baca Ranch and the last remaining private stretches of the Appalachian Trail.
- ✓ **Protecting Endangered Species.** The final budget provides an additional \$32 million in FY99 -- a 23-percent increase from last year -- providing funds for protection and recovery of endangered and threatened species, as well as enhancements for important habitats.
- ✓ **Leading the Fight Against Global Warming.** The final budget provides over \$1 billion -- a 26-percent increase from last year -- to support research investments that will reduce greenhouse gas emissions, oil consumption, and energy costs for consumers and businesses by promoting increased energy efficiency and clean energy technologies.
- ✓ **Defending Our Environment Against Stealth Attacks.** President Clinton forced Congress to drop special-interest riders that would have rolled back hard-won environmental protections. Anti-environmental language in the budget bills would have:
  - Forced overcutting of timber on national forests and accelerated logging of Alaskan rain forest.
  - Allowed intrusive helicopter landings in Alaska wilderness and the first road ever carved through a designated wilderness area.
  - Hindered salmon restoration in the Pacific Northwest, and allowed harmful commercial fishing in wilderness waters of Glacier Bay National Park.
  - Blocked common-sense actions to reduce greenhouse gas emissions, and barred the Administration from informing the public about the threat of global warming.
  - Placed restrictions on the use of brownfields funds that would have denied municipalities the funds they need to undertake clean-up at brownfield sites.

## **Responds to the Farm Crisis at Home...**

- ✓ **Emergency Farm Assistance.** President Clinton vetoed the Agriculture Appropriations bill on October 8th "because it fails to address adequately the crisis now gripping our Nation's farm community." The final budget includes a significant increase in total emergency assistance to farmers and ranchers compared to the bill the President vetoed -- about \$6 billion in the final budget versus \$4.2 billion in the vetoed bill, that's 40 percent more assistance than the bill the President vetoed. The final bill increased the amount for crop loss compensation by \$228 million, and increased the amount for economic loss compensation by \$1.4 billion, bringing the amounts for these to \$2.6 billion and about \$3 billion, respectively.

## ....And to Financial Turmoil Abroad

- ✓ **Full IMF Funding To Help Address International Financial Crisis.** With America's fiscal house in order, the United States is now the bulwark of economic stability in the world. Some other nations around the world, however, are experiencing major economic upheaval, hurting our exports, farmers, and ranchers. A strong International Monetary Fund is a stabilizing force in the world economy and is a critical piece of President Clinton's strategy to protect the international financial system -- and therefore the U.S. economy -- against the risk of new, escalating, or spreading crises. President Clinton fought for and won full funding of \$17.9 billion for the IMF -- a critical part of his strategy to help address the global financial crisis and to keep our economy strong. A stronger IMF will give the U.S. and its allies new flexibility in developing responses to protect the world from the spread of the financial crisis.
- ✓ **Fully Funds President Clinton's Child Labor Initiative.** In his State of the Union address, the President pledged to send legislation to Congress to fight abusive child labor and proposed making the United States the world leader in supporting programs to reduce abusive child labor, with a 10-fold increase in our commitment to the International Programme for the Elimination of Child Labor (IPEC), from \$3 million to \$30 million a year. While the Senate, with the strong leadership of Senator Harkin, fully funded the President's request, the House failed to do so, providing only \$6 million. In the final budget, Congress agreed to the President's full request of \$30 million for IPEC. The budget also fully funds the President's \$9 million request for domestic enforcement and a migrant youth job-training demonstration.

## Moves People from Welfare to Work and Empowers Communities

President Clinton and Vice President Gore are committed to tapping the potential of America's urban and rural communities. This budget moves forward on their vision to help revitalize America's communities:

- ✓ **50,000 Welfare-to-Work Housing Vouchers.** President Clinton's FY 1999 Budget included \$283 million for 50,000 new vouchers exclusively for people who need housing assistance to make the transition from welfare to work. The original House bill included \$100 million, while the Senate provided only \$40 million. The final budget includes President Clinton's full request of \$283 million for 50,000 welfare-to-work housing vouchers.
- ✓ **Flexible Funding for Empowerment Zones.** President Clinton and Vice President Gore requested mandatory funding for second-round urban and rural Empowerment Zones. The final budget includes \$60 million in this flexible discretionary funding for the next round of Empowerment Zones and 20 new rural Enterprise Communities.
- ✓ **Extended Welfare-to-Work Tax Credit.** This tax credit encourages employers to hire, invest in training, and retain long-term welfare recipients. The credit is for 35 percent of the first \$10,000 in wages in the first year of employment and 50 percent of the first \$10,000 in the second year. President Clinton proposed to extend the credit in his FY99 budget and the final budget includes an extension through June 30, 1999.
- ✓ **Community Development Financial Institution (CDFI) Expansion.** The Administration requested a major expansion of the CDFI program to continue building a national network of

community development banks. The original House bill froze CDFI funding at \$80 million, while the Senate cut funding to \$55 million. The final budget increases CDFI funding from \$80 million in FY98 to \$95 million in FY99 -- a 19-percent increase.

- ✓ **Public Housing Reform.** This legislation makes the President's landmark housing reform a reality. This bipartisan bill will allow more economic integration and deconcentration in our Nation's public housing, encourage and reward work, provide protections for those most in need, and put the Nation back into the housing business with the first new housing vouchers in five years.
- ✓ **FHA Loan Limit Increased.** President Clinton's FY99 budget included an increase in the FHA loan limit to expand homeownership opportunities to more Americans. The final budget includes an increase in the FHA loan limit, raising the limit from \$86,317 to \$109,032 in the lowest cost areas and from \$170,300 to \$197,621 in the highest cost areas.
- ✓ **Extended Work Opportunity Tax Credit.** This tax credit encourages employers to hire individuals who have traditionally had a hard time securing employment. Targeted groups include disadvantaged youth, including those living in empowerment zones and enterprise communities, welfare recipients, and qualified veterans. The maximum credit paid to the employer is as much as 40 percent of an individual's first \$6,000 in wages. The President proposed to extend this credit in his FY99 budget and the final budget includes an extension through June 30, 1999.
- ✓ **"Play-by-the-Rules" Homeownership Initiative.** President Clinton's FY99 budget included \$25 million for the Neighborhood Reinvestment Corporation to start the "Play-by-the-Rules" homeownership initiative, which would make homeownership more accessible to 10,000 families who have good rental histories, but are not adequately served in the housing market. The final budget includes \$25 million for this new initiative.
- ✓ **Increased Funding for Homeless Assistance.** The President proposed a major expansion of HUD's continuum of care program, designed to help homeless persons obtain health care, jobs, and permanent housing. The final budget includes \$975 million in funds for the homeless -- a \$152 million, or 18 percent, increase over last year.
- ✓ **HUD Fair Housing.** The President proposed a major expansion of HUD's Fair Housing programs, as part of his "One America" initiative. The final budget expands HUD's Fair Housing programs from \$30 million in FY98 to \$40 million in FY99. That 33-percent increase includes \$7.5 million for a new audit-based enforcement initiative proposed by the Administration.
- ✓ **Regional Opportunity Counseling.** The Administration requested funds to help counsel Section 8 certificate and voucher holders on their full range of housing options. While the Senate did not include any funding for this initiative, the final budget includes \$10 million for this voluntary effort to expand the housing and employment opportunities available to low-income families.
- ✓ **Expansion of HUD's Youthbuild Program.** The Administration proposed expanding funds for Youthbuild by more than a quarter. While the original House bill provided \$35

million and the Senate provided \$40 million, the final budget includes \$42.5 million -- an increase of over 20 percent.

- ✓ **Cleaning Up Brownfields.** The Administration proposed \$91 million for EPA's brownfield activities, such as grants for site assessment and community planning. The final budget includes the President's request of \$91 million.
- ✓ **Community Development Block Grant (CDBG) Expansion.** President Clinton's FY99 budget included an expansion of CDBG. The final budget increases funding for CDBG from \$4.675 billion in FY98 to \$4.750 billion in FY99 -- that's a \$75 million expansion this year.
- ✓ **Increased Help For Communities Suffering From Sudden and Severe Economic Dislocation.** President Clinton's FY99 budget included a 10-percent increase in funds for EDA so that they can better respond to sudden and severe economic dislocation. The final budget increases funding for EDA from \$361 million to \$393 million -- that's a 9-percent expansion this year.
- ✓ **Expansion of NADBank.** The Administration proposed providing the North American Development Bank's (NADBank) Community Adjustment and Investment Program \$37 million of paid-in capital, which would allow the Bank to leverage private capital markets to provide additional financing to trade-affected communities. The final budget includes \$10 million of paid-in capital for the NADBank.
- ✓ **\$75 Million for Welfare-to-Work Transportation Funds.** While the House and Senate provided \$50 million -- the minimum amount "guaranteed" in the transportation bill -- the final budget includes \$75 million for this competitive grant program. These funds will assist states and localities in developing flexible transportation alternatives, such as van services, to help former welfare recipients and other low income workers get to work.
- ✓ **Individual Development Accounts.** Since 1992, President Clinton has supported the creation of Individual Development Accounts (IDAs) to empower individuals to save for a first home, post-secondary education, or to start a new business. Congress recently passed legislation authorizing IDAs, and the final budget includes \$10 million to get this program off the ground.
- ✓ **Heating and Cooling Assistance for Low-Income Families Protected.** More than five million low-income families receive help to pay for home heating costs through this program, yet the House Republicans tried to eliminate it. The final budget includes the President's full request for funding to help low-income families pay for home heating and cooling assistance.

## **Advances a Strong Health and Technology Research Agenda**

For six years in a row, President Clinton and Vice President Gore have proposed substantial increases in the Federal government's research and development portfolio to build a healthier, more prosperous, and productive future. In FY 1999, the President proposed, within the first balanced budget in a generation, the largest commitment to key civilian research in the history of our country as part of the "Research Fund for America." Congress agreed to support significant increases in

R&D, including:

- ✓ **Expansion of National Science Foundation.** President Clinton proposed a major expansion of research and development funds for the National Science Foundation (NSF). The final budget includes a 7-percent increase -- from \$3.4 billion in FY98 to \$3.7 billion in FY99 -- in the NSF research budget to support science and engineering research across all fields and disciplines. NSF supports nearly half of the non-medical basic research conducted at universities.
- ✓ **Expansion of National Institutes of Health for Biomedical Research.** President Clinton's FY99 budget included the largest-ever dollar increase in funds for the National Institutes of Health (NIH). The final budget includes almost \$2 billion expansion of NIH research funding -- a 14-percent increase. Scientists are on the cusp of important new breakthroughs in biomedical research, which could revolutionize the way medical experts understand, treat, and prevent some of our most devastating diseases. This increase will enable scientists to pursue a wide range of cutting edge research from Alzheimers to AIDS to genetic discoveries.
- ✓ **Research and Experimentation Tax Credit.** President Clinton proposed to extend the research tax credit because it provides incentives for private sector investment in research and innovation that can help increase America's economic competitiveness and enhance U.S. productivity. The final budget extends this research tax credit until June 30, 1999.
- ✓ **Expansion of Energy Department Science Budget.** President Clinton's FY99 included an 8 percent increase in the Department of Energy's science budget, including support for the National Spallation Neutron Source. The final budget fully funds the President's request.
- ✓ **Funds Next Generation Internet.** In his State of the Union address, President Clinton said, "I ask Congress to step up support for building the next generation Internet... And the next generation Internet will operate at speeds up to a thousand times faster than today." The final budget includes more than \$100 million funding for the Next Generation Internet, a Federal R&D initiative which will connect more than 100 universities at speeds that are up to 1,000 times faster than today's Internet, and establish the foundation for the networks and applications (e.g. telemedicine, distance learning) of the 21st century.
- ✓ **Expansion in Advanced Technology Program (ATP).** President Clinton's FY99 budget proposed an expansion of ATP to promote cutting-edge high-technology projects. While the Senate froze funding at the FY98 level and the House cut funding by \$13 million, the final budget increases ATP funding to \$204 million -- an \$11 million increase over last year -- which will allow for about \$70 million in new awards to develop high-risk technologies that promise significant commercial payoffs and widespread economic benefits.

## **Improving the Public Health of America**

For six years, President Clinton and Vice President Gore have been working hard to expand our Nation's health care investments, including research, prevention, and quality care for more Americans.

- ✓ **New Efforts to Prevent and Treat HIV/AIDS.** The Congress has responded to the

President's and Vice President's request to substantially increase efforts to prevent and treat HIV/AIDS. Congress has provided \$1.4 billion for Ryan White Care Act activities. This funding level includes a 61-percent increase for the AIDS drug assistance program, which provides funds to States to help uninsured and underinsured people with life-saving treatments for HIV/AIDS. In addition, Congress provided about \$630 million for HIV prevention activities at the Centers for Disease Control and Prevention.

- ✓ **Historic \$130 Million Effort to Address HIV/AIDS in Minority Community.** Minority communities make up the fastest growing portion of the HIV/AIDS caseload (44 percent of all new HIV cases). In FY99, there will be an unprecedented \$130 million investment, including that will improve prevention efforts in high-risk communities, and expand access to cutting edge HIV therapies and other treatment needed for HIV/AIDS.
- ✓ **Critical New Investments to Protect Public Health at the Centers for Disease Control (CDC).** The Congress has responded to President Clinton's request for a \$2.4 billion investment -- a \$222 million increase -- in public health at the CDC. This critical investment will address a host of public health challenges, including fighting emerging infectious diseases, combating new resistance to anti-biotics, and improving prevention for some of our nation's leading killers, such as diabetes, HIV/AIDS, and heart disease.
- ✓ **New Efforts to Improve the Quality of Health Care.** Congress has responded to the President's request for a \$25 million investment in new research at the Agency of Health Care Policy and Research (AHCPR) to research on the quality, costs, and outcomes of the health care delivery system. Identifying critical health care problems and educating health plans, medical professionals, patients, and advocates about solutions can lead to important improvements in the quality of health care.
- ✓ **Increasing Funding to Provide Health Insurance to Low-Income Children in Puerto Rico and the Territories.** Thousands of uninsured children in both Puerto Rico and the other territories will now be eligible for meaningful health care coverage for the first time under the Children's Health Insurance Program (CHIP). The territories were currently on schedule to receive an inadequate and inequitable \$10.7 million in FY99. Today, the Congress responded to the President's request and provided the territories with an additional \$32 million in FY99 for their new CHIP programs that will meet the needs of their uninsured children.
- ✓ **Funding the President's Commitment to Eliminate Racial Health Disparities.** Minorities suffer from higher rates for a number of critical diseases. For example, African Americans under the age of 65 have twice the rate of heart disease as whites, and Native Americans suffer from diabetes at nearly three times the average rate. The Congress has taken a critical first step in investing in the President's multi-year proposal to eliminate racial health disparities in six health areas, including HIV/AIDS, cancer, diabetes, and immunizations. The Congress has given the Administration authority to fund grants for communities to develop new strategies to address these disparities and has granted the President's request for increases in other critical public health programs, such as heart disease and diabetes prevention at CDC, that have proven effective in attacking these disparities.

- ✓ **Lead Poisoning Prevention.** The President requested a \$25 million increase in funding for HUD's Office of Lead Hazard Control, in order to reduce the threat posed by childhood lead poisoning and other housing-related environmental health hazards. While the Senate did not provide any additional funding, the final budget includes a \$20 million increase for lead poisoning prevention.

## **Other Highlights...**

- ✓ **Reduces Backlog and Expands Alternative Dispute Resolution at Equal Employment Opportunity Commission (EEOC).** The President's FY99 budget included \$279 million -- a \$37 million increase over the previous year -- to significantly expand EEOC's alternative dispute resolution program and reduce the backlog of private sector discrimination complaints. The final budget fully funds the President's request -- providing the first real increase for EEOC in several years.
- ✓ **President Clinton's Food Safety Initiative.** The final budget provided approximately \$79 million in new funds for the President's Food Safety Initiative to help implement a far-ranging plan to improve surveillance of food borne illnesses, education about proper food handling, research, and inspection of imported and domestic foods. The new funds are part of an Administration-wide effort, led by the Department of Agriculture and the Department of Health and Human Services, to create a seamless, science-based food safety system.
- ✓ **More Police on the Streets.** In 1994, President Clinton fought for and won a commitment to put 100,000 police officers on the street. The final budget includes funds for 17,000 additional Community Oriented Police Services (COPS) Program police officers toward the President's goal of 100,000 cops on the beat by 2000.
- ✓ **Increasing Law Enforcement in Indian Country.** The final bill includes \$20 million in FY99 for more police officers and public safety initiatives in the approximately 56 million acres of Indian lands serving more than 1.4 million residents.
- ✓ **Brings Financial Stability to Tennessee Valley Authority (TVA).** The final budget includes \$50 million that will allow TVA to better provide for the citizens of the seven states -- Alabama, Georgia, Kentucky, Mississippi, North Carolina, Tennessee, and Virginia -- that it serves. The agreement will let TVA refinance part of its debt to compensate for the loss of Federal funds for its non-power programs. The final budget also prevents TVA from losing the Land Between the Lakes Recreation Area.

**DESPITE ALL THE PROGRESS IN THIS YEAR'S BUDGET,  
THERE IS STILL MORE WORK LEFT TO DO**

In the waning days of the session, the President and Congressional Democrats prevailed in making critical investments in advancing the President's agenda. However, much work remains for the future because Republicans in Congress killed, at least for now, critical priorities, including:

- X School Modernization Tax Credits.** Beginning with his State of the Union address, the President fought all year to modernize our schools. His fully paid for tax credits would have leveraged nearly \$22 billion in bonds to build and renovate schools. In the final days of the budget negotiations, Republicans in Congress refused to even meet on the critical issue of school construction.
- X Patients Bill of Rights.** President Clinton repeatedly urged the Congress to pass a strong, enforceable patients' bill of rights that would assure Americans the quality health care they need. Congressional Republicans killed this year's effort to pass a Patients Bill of Rights.
- X Comprehensive Tobacco Legislation.** This year, President Clinton made passage of legislation to reduce youth smoking a top priority, in order to stop kids from smoking before they start through a significant price increase, measures to prevent tobacco companies from marketing to children, and critical public health prevention and education programs. Congressional Republicans opted to act as politicians instead of parents, and killed this year's effort to pass bipartisan comprehensive tobacco legislation to reduce youth smoking.
- X Campaign Finance Reform.** At the beginning of the year, the President made passage of bipartisan, comprehensive campaign finance reform a priority for his Administration. After months of delay, the House of Representatives overcame defenders of the status quo and passed the Shays-Meehan bill. However, the Senate Republicans killed this historic legislation.
- X Child Care Initiative.** In his State of the Union, the President proposed an historic child care initiative to make child care better, safer and more affordable for America's working families. The President's proposal included \$7.5 billion over 5 years for child care subsidies for low-income working families and tax credits to help 3 million working families pay for child care. The Republicans refused to support these critical investments.
- X Speeding Toxic Cleanups.** President Clinton called for an additional \$650 million -- a 40 percent increase -- to accelerate Superfund cleanups with a goal of completing a total of 900 cleanups by 2001. The Republican majority refused these funds, threatening to delay cleanup at up to 171 sites across the country.

- X **Work Incentives Bill for People with Disabilities.** At the commemoration of the Americans with Disabilities Act last July, the President endorsed the bipartisan Jeffords-Kennedy bill that enables people with disabilities to go back to work by providing an option to buy into Medicaid and Medicare, as well as other pro-work initiatives. This bill was on the list of top Administration priorities in the final budget negotiations, but rejected by Republicans. The President will continue to fight to give people with disabilities the opportunity to work --including the critical health insurance that makes work possible.
  
- X **Education Opportunity Zones.** President Clinton, in his budget, called for Education Opportunity Zones to help high-poverty urban and rural communities increase student achievement by raising standards, improving teaching, ending social promotions, and turning around failing schools. The Republican majority refused to provide the requested \$200 million in funds, which would have helped about 50 high-poverty, low-achieving, urban and rural school districts.
  
- X **Minimum Wage.** President Clinton and Congressional Democrats called for a \$1 increase in the minimum wage over two years -- to raise the wages of 12 million workers. For someone who works full-time, this minimum wage increase would have meant an additional \$2,000 per year. However, 95 percent of Senate Republicans voted to kill the President's minimum wage increase.
  
- X **Medicare Buy-In.** President Clinton proposed providing new options for Americans ages 55 to 65 to obtain health insurance, including buying into Medicare. This policy would not have hurt the Medicare Trust Fund. The Republican majority killed this new initiative that would have helped provide health care to hundreds of thousands of vulnerable Americans.

# HHS NEWS

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

**FOR IMMEDIATE RELEASE**

September 14, 1998

Contact: HCFA Press Office

(202) 690-6145

## **BBA EXPECTED TO RESTRAIN PUBLIC-SECTOR HEALTH SPENDING WHILE PRIVATE SECTOR HEALTH SPENDING INCREASES**

National Health Expenditure Study Projects  
Health Spending Will Double Over the Next Decade

Public health spending growth is expected to be outpaced by private sector health spending in the U.S. over the next five years, according to a study conducted by the Health Care Financing Administration. The slowdown is due primarily to substantial Medicare savings achieved in the Balanced Budget Act of 1997 (BBA). Those savings result from new payment systems that promote efficiency, tighter controls on waste, fraud and abuse, and smaller payment hikes for providers.

The study also projects that the nation's health spending will more than double, from \$1 trillion in 1996 to \$2.1 trillion in 2007. Health spending as a share of gross domestic product (GDP) is expected to increase from 13.6 percent to 16.6 percent.

The study, by HCFA's Office of the Actuary, is published in the September/October issue of *Health Affairs*.

The authors predict that national health spending growth will accelerate beginning in 1998, with average annual growth of 6.5 percent between 1998 and 2001, up from a 5 percent average annual growth during the years 1993 through 1996.

The HCFA economists and actuaries expect faster private spending increases because of recent stronger growth in real per capita income. They say that should boost underlying demand for medical services. They also expect private sector managed care enrollment to grow more slowly and the increase in the percentage of uninsured Americans to temporarily slow.

However, because of the BBA's effect on Medicare, real per capita public sector growth is expected to decelerate between 1998 and 2002. The actuaries expect the introduction of prospective payment systems that promote efficiency and cutbacks in payment formulas will slow the rate of increase in Medicare expenditures.

- More -

Between 2001 and 2007, average annual growth is expected to be similar for both the private and public sectors. Public sector spending growth is estimated to accelerate after 2002 because some of the changes in the BBA are one time reductions and other will expire.

Patterns of growth are expected to differ substantially by type of service. All health providers will be affected by rising costs. Hospitals are expected to continue to benefit from relatively slow growth in labor compensation as downsizing continues. Hospital spending growth is projected to lag behind the growth in drug, physician and other professional services as the trend to move from inpatient to other settings is reinforced by the growth of Medicare managed care.

Expenditures for drugs are expected to grow rapidly through 2007 as more prescriptions are written and the mix of prescriptions shift to more expensive drugs. In addition, slower growth is expected in both nursing home and home health expenditures as provisions of the BBA implementing Medicare PPS systems and introducing new Medicare limits and caps are felt in the public-sector.

Detailed information on the forecasts, both by type of service and source of funds, is available on the HCFA home page at <http://www.hcfa.gov/stats/NHE-Proj/>.

###

# The Next Ten Years Of Health Spending: What Does The Future Hold?

*A new balance of private- and public-sector forces will determine the rate of spending growth over the next decade.*

BY SHEILA SMITH, MARK FREELAND, STEPHEN HEFFLER, DAVID MCKUSICK, AND THE HEALTH EXPENDITURES PROJECTION TEAM

128

THE SUSTAINED LOW GROWTH in national health spending since 1993 is markedly different from the pattern of growth observed over the past thirty years. However, the outlook for the next few years is somewhat less propitious. Following five years of near-stability, health spending is expected to rise as a share of gross domestic product (GDP) beginning in 1998, climbing from 13.6 percent in 1996 to an estimated 16.6 percent by 2007 (Exhibit 1). National health spending will likely reach \$2.1 trillion by 2007.

The pronounced recent slowdown in health spending has exceeded the expectations of most industry analysts. What this means for future health spending is of great interest to stewards of public programs, whose long-term funding is uncertain; to employers, for whom the costs of health benefits eat increasingly into their bottom line; and for the medically uninsured and those who strive to include them in the nation's health care system.

Growth in real per capita national health spending is expected to edge upward only slightly in 1997, remaining near its trough in 1996 (the last year for which we have com-

plete data).<sup>1</sup> However, real per capita national health spending is projected to accelerate for 1998 (Exhibit 2).<sup>2</sup> Recent stronger growth in real per capita income is expected to boost underlying demand for medical services, and higher medical inflation is expected to fuel increasing health spending growth. An anticipated slowdown in the growth of private-sector managed care enrollment and a pause in the downward trend for private health insurance coverage also are expected to contribute to the acceleration in health spending growth.

In a reversal of recent trends, the higher anticipated growth in real per capita national health spending will be driven almost entirely by rising expenditures in the private rather than the public sector (Exhibit 3). Growth in real per capita public spending is projected to level out in 1997-1998 and then to slow through 2000. This follows a period of relatively rapid growth in real per capita public spending for the early to mid-1990s. Growth in aggregate real per capita national health spending is projected to be 3.4 percent over 1997-2007. This is below the average pace for 1970-1993, when real per capita health spend-

*Sheila Smith is an economist in the National Health Statistics Group, Office of the Actuary, Health Care Financing Administration (HCFA). Mark Freeland is an economist and deputy director of the National Health Statistics Group. Stephen Heffler is an economist with the National Health Statistics Group. David McKusick is an actuary with the Actuarial Research Corporation. The Health Expenditures Projection Team also includes Sally Burner, Stephen Calfo, Kent Clements, John Phelps, Arthur Sensenig, and Jean Stiller.*

**EXHIBIT 1**  
**National Health Expenditures (NHE), By Sources Of Funds, Amounts, And Average Annual Growth, Selected Calendar Years 1970-2007**

Source of funds	1970	1980	1990	1993	1996	1998 <sup>a</sup>	2001 <sup>a</sup>	2007 <sup>a</sup>
National health expenditures (billions)	\$73.2	\$247.3	\$699.5	\$894.9	\$1,035.1	\$1,146.8	\$1,384.1	\$2,133.3
Private funds	45.5	142.5	415.1	505.9	552.0	606.4	746.6	1,145.9
Consumer payments	41.2	130.0	383.0	466.7	508.5	558.7	690.0	1,065.1
Private health insurance	16.3	69.8	238.6	303.0	337.3	375.0	471.0	754.4
Out-of-pocket payments	24.9	60.3	144.4	163.7	171.2	183.7	219.0	310.7
Other private funds	4.4	12.5	32.1	39.2	43.5	47.6	56.6	80.8
Public funds	27.7	104.8	284.4	389.0	483.1	540.4	637.4	987.4
Federal	17.8	72.0	195.8	279.6	350.9	393.8	461.3	712.9
Medicare	7.7	37.5	112.1	153.0	203.1	231.1	267.8	415.6
Medicaid	2.9	14.5	42.7	76.8	91.8	102.1	123.7	201.3
Other federal	7.3	19.9	41.0	49.8	55.9	60.6	69.9	96.0
State and local	9.9	32.8	88.5	109.3	132.2	146.6	176.1	274.5
Medicaid	2.5	11.6	32.7	43.7	55.9	63.4	79.6	135.7
Other state and local	7.4	21.2	55.8	65.6	76.3	83.2	96.5	138.8
GDP deflator	0.305	0.603	0.936	1.026	1.102	1.138	1.221	1.469
<b>Average annual growth from prior year shown</b>								
National health expenditures	-	12.9%	11.0%	8.6%	5.0%	5.3%	6.5%	7.5%
Private funds	-	12.1	11.3	6.8	2.9	4.8	7.2	7.4
Consumer payments	-	12.2	11.4	6.8	2.9	4.8	7.3	7.5
Private health insurance	-	15.7	13.1	8.3	3.6	5.4	7.9	8.2
Out-of-pocket payments	-	9.2	9.1	4.3	1.5	3.6	6.0	6.0
Other private funds	-	11.1	9.9	6.9	3.5	4.6	5.9	6.1
Public funds	-	14.2	10.5	11.0	7.5	5.8	5.7	7.6
Federal	-	15.0	10.5	12.6	7.9	5.9	5.4	7.5
Medicare	-	17.2	11.6	10.9	9.9	6.7	5.0	7.6
Medicaid	-	17.6	11.4	21.7	6.1	5.5	6.6	8.5
Other federal	-	10.6	7.5	6.7	3.9	4.1	4.9	5.4
State and local	-	10.1	10.4	7.3	6.5	5.3	6.3	7.7
Medicaid	-	16.8	10.9	10.2	8.5	6.5	7.8	9.3
Other state and local	-	11.0	10.2	5.5	5.2	4.4	5.1	6.2
GDP deflator	-	7.1	4.5	3.1	2.4	1.6	2.4	3.1
NHE as percent of GDP (percent of total)	7.1	8.9	12.2	13.6	13.6	13.7	14.5	16.6

**SOURCE:** Health Care Financing Administration, Office of the Actuary; and U.S. Department of Commerce, Bureau of Economic Analysis.

**NOTE:** GDP is gross domestic product.

<sup>a</sup> Projected.

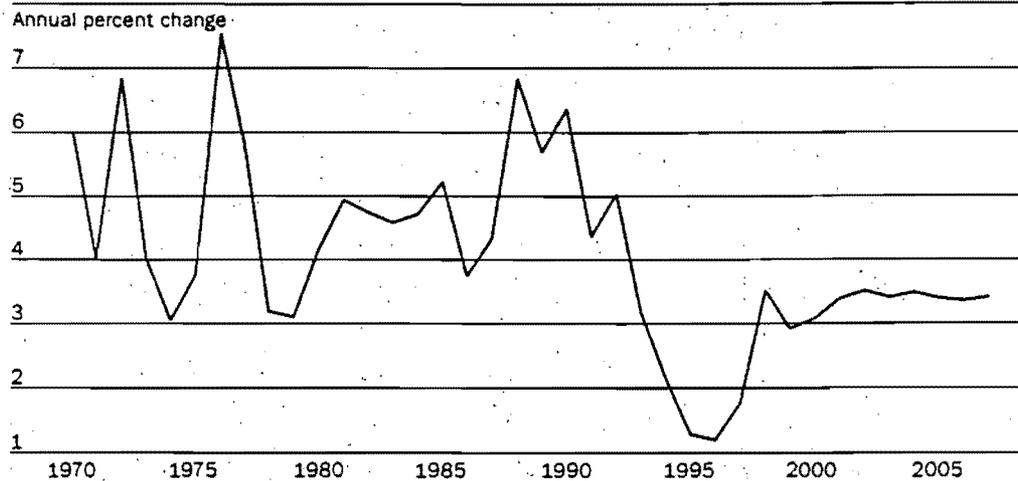
129

ing growth tended to cycle around a trend just below 5 percent, but well above the average of 1.5 percent for 1993-1996 (Exhibit 4).

The projection process is subject to uncertainty. In light of the wide variation in historical experience, and the recent and ongoing structural change in health care markets, these estimates must be regarded as merely an indication of probable trends. Projections of aggregate growth rates and patterns of spend-

ing across types of service and sources of payment are conditional on assumptions regarding future macroeconomic conditions, as well as on assumptions regarding the nature and impact of future institutional change in the health sector.

We begin with a brief description of the model framework for national health spending projections, and then discuss the assumptions underlying these projections (including

**EXHIBIT 2****Growth in Real Per Capita National Health Expenditures, 1970–2007**

**SOURCE:** Health Care Financing Administration, Office of the Actuary.

**NOTES:** National health expenditures (NHE) are deflated by the gross domestic product (GDP) deflator. Much of the increase shown for 1998 reflects a sharp decline in the deflator rather than an increase in nominal NHE. Figures after 1996 are projections.

130

a description of the projections for Medicare expenditures from the 1998 Medicare trustees' report, which are incorporated in the spending projections). This discussion provides the context for our description of the patterns of growth anticipated for health spending across different sectors and the various influences on these patterns.

### A MODEL FRAMEWORK FOR HEALTH SPENDING PROJECTIONS

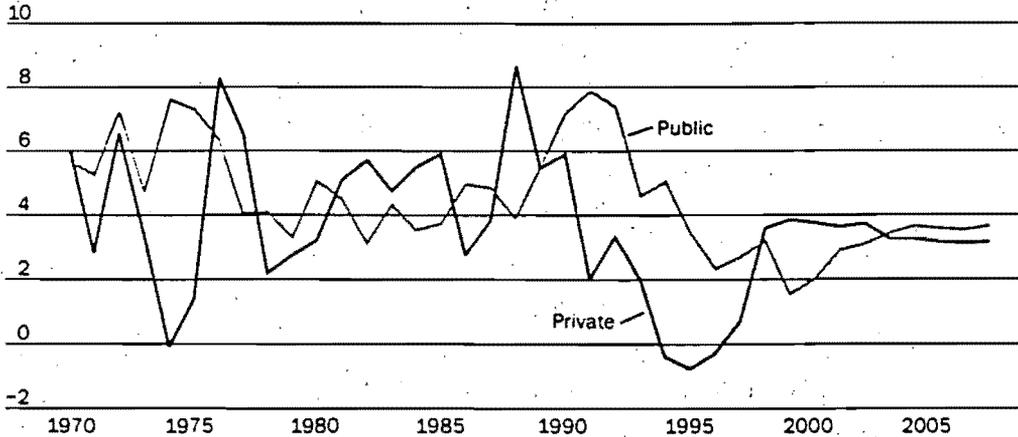
These projections are generated within a model framework that incorporates actuarial, economic, and judgmental factors. Health spending growth is decomposed into five contributing factors: population growth, economywide inflation (as measured by the GDP deflator), excess medical inflation (in excess of growth in the GDP deflator), per capita use of services, and intensity (real inputs per unit of service). Growth in use or intensity of services associated with shifts in the age/sex composition of the population is controlled for by the use of weighted indexes based on the distribution of use and intensity of services across age/sex groups.<sup>3</sup>

Projections of medical prices, use, and intensity are based on an analysis of past trends and relationships observed in the national health expenditures. This analysis addresses relationships between indicators such as per capita use and intensity, demographic changes, and macroeconomic variables including real per capita income. In addition, we evaluated the role of supply, incorporating projections of health personnel where available. Projected trends in use, intensity, and medical prices also reflect analysis of historical patterns of growth across types of services that may be substitutes or complements.

In our analysis we use enrollment in health maintenance organizations (HMOs) as a proxy for the effects of the growth of all managed care enrollment. The use of this proxy is based on the assumption that the effects of managed care, both in the form of increased enrollment in other modes of managed care such as preferred provider organizations (PPOs) and in the increasing effectiveness of efforts to manage utilization as managed care spreads, are likely to be correlated with HMO enrollment. Throughout this paper *managed*

**EXHIBIT 3****Growth In Real Per Capita Private And Public National Health Expenditures, 1970-2007**

Annual percent change

**SOURCE:** Health Care Financing Administration, Office of the Actuary.**NOTES:** National health expenditures (NHE) are deflated by the gross domestic product (GDP) deflator. Much of the increase shown for 1998 reflects a sharp decline in the deflator rather than an increase in nominal NHE. Figures after 1996 are projections.

care is defined broadly to include coverage provided by all organizations that accept financial risk and exert substantial administrative control over patients' access to medical providers or services.<sup>4</sup>

The spending projections maintain consistency with actuarial forecasts produced in the 1998 Medicare trustees' report and with Medicaid projections based on the same macroeconomic assumptions.<sup>5</sup> These projections embody the effects of current law for these programs.<sup>6</sup>

### PROJECTION ASSUMPTIONS

The patterns of projected spending growth hinge on a number of assumptions regarding future macroeconomic conditions and health-sector developments. The influence of judgmental assumptions that underlie these projections is particularly important. The past few years have been marked by accelerating structural change in markets for health care and for health insurance. In response to persistently rising health care costs, health care delivery systems have evolved in ways that

have fundamentally transformed the incentives that influence the demand for medical care. In the process, the relationships of all participants in these markets, from providers to health plans, employers, public payers, and consumers, have been altered.

■ **MACROECONOMIC ASSUMPTIONS.** Demographic trends are expected to act as a mild restraint on health spending over the coming decade. Population growth is projected to average 0.8 percent for 1997-2007, slightly below the average rate of growth of 1.0 percent for 1980-1996. Growth in the populations age sixty-five and older and age eighty-five and older will slow; although the population will continue to age, it will do so more slowly than it has over the previous three decades. In this sense, the coming decade represents the calm before the storm, to be followed by a period of acceleration in aging baby boomers' demand for health services.<sup>7</sup>

Economywide inflation is projected to decline sharply in 1998 but should be approximately the same on average for 1997-2007 as it was for 1990-1996. Our projection of growth

**EXHIBIT 4****Real Per Capita National Health Expenditures, Average Annual Growth Rate From Prior Year Shown, Selected Calendar Years 1970-2007**

Spending category	1970- 1980	1980- 1990	1990- 1993	1993- 1996	1996- 1998 <sup>a</sup>	1998- 2001 <sup>a</sup>	2001- 2007 <sup>a</sup>
National health expenditures	4.5%	5.1%	4.2%	1.5%	2.6%	3.1%	3.4%
Health services and supplies	4.8	5.3	4.3	1.6	2.7	3.2	3.5
Personal health care	4.6	5.1	4.2	1.4	2.3	3.1	3.5
Hospital care	5.4	3.8	3.7	0.2	0.8	1.6	2.6
Physician services	4.4	6.5	3.5	-0.1	2.1	3.8	3.8
Dental services	2.8	3.3	3.1	3.3	3.6	3.0	2.7
Other professional services	7.6	12.3	5.7	4.3	4.6	4.6	4.1
Home health care	17.5	12.4	15.5	6.2	2.2	4.5	4.0
Drugs and other medical nondurables	1.3	4.9	3.7	3.1	5.1	5.0	4.7
Prescription drugs	0.1	6.2	5.5	4.1	6.6	6.2	5.6
Vision products and other medical durables	0.7	4.9	1.3	-0.8	1.2	2.0	1.7
Nursing home care	6.8	5.3	4.8	2.3	2.8	2.2	2.4
Other personal health care	3.6	5.0	12.3	11.6	5.6	7.4	8.6
Program administration and net cost	7.3	7.2	5.4	0.8	7.6	4.6	4.3
Government public health activities	8.7	5.4	4.5	8.3	4.7	3.7	2.9
Research and construction	0.1	2.1	1.5	-0.5	0.6	0.4	0.3
Research	2.6	2.7	1.6	2.0	1.5	1.1	0.7
Construction	-1.7	1.5	1.4	-3.3	-0.5	-0.5	-0.2
GDP deflator	7.1	4.5	3.1	2.4	1.6	2.4	3.1

**SOURCES:** Health Care Financing Administration, Office of the Actuary; and U.S. Department of Commerce, Bureau of Economic Analysis.

**NOTE:** National health expenditures deflated by the gross domestic product (GDP) deflator.

<sup>a</sup> Projected.

in real GDP assumes that growth will slow from its 1997 peak of 3.8 percent toward a "sustainable" rate of growth (2 percent) by 1999 and will remain near this rate through 2007.

Consistent with our projection of declining growth in real GDP over 1998-2007, we expect growth in real per capita income to taper off from its 1998 peak. Real income growth will be rapid through 1998 as the projected sharp decline in inflation boosts consumers' buying power. It then is expected to decelerate and become stable for the remainder of the projection period.

Rising incomes tend to increase demand for health services.<sup>8</sup> However, the nature of health care markets causes a lag in this effect, principally because private and public third-party payers insulate these markets from the immediate effects of rising or falling incomes.<sup>9</sup> As a result, a lag occurs in the effects of the

recent rise in real per capita income and the subsequent decline; this causes spending to accelerate through 2001 and then to decelerate modestly through 2007.

■ **HEALTH-SECTOR ASSUMPTIONS.** The pronounced slowdown in health spending since 1992 is often attributed to the effects of managed care. Conventional wisdom holds that managed care restrains costs; nonetheless, economists disagree about the magnitude and nature of this effect and about whether it has been the dominant factor behind the recent deceleration. Even if such an effect is assumed to exist, there is a lack of consensus on whether the shift from traditional fee-for-service to managed care coverage can be expected to result in a one-time reduction in expenditures (thus reducing growth only temporarily), or whether the rate of spending growth can be permanently reduced.<sup>10</sup>

A growing body of research confirms that shifts in enrollment from fee-for-service coverage to managed care have helped to restrain costs.<sup>11</sup> However, the question of whether managed care, in the absence of further shifts in enrollment, can be expected to have a permanent effect on growth in health care costs has been more difficult to address.

The theoretical justification for such a sustained reduction in growth is based on the hypothesis that managed care may slow the rate of diffusion of new technologies.<sup>12</sup> Since medical innovation often increases costs, slower rates of diffusion could be expected to restrain growth in health care costs. David Cutler and Louise Sheiner suggest that managed care slows the rate of diffusion of new medical technologies, which indicates the potential for a sustained reduction in the growth of medical spending.<sup>13</sup>

Our ten-year projection assumes a primarily one-time effect for managed care, with full effects realized with some lag. In addition to this primary effect, we have assumed a small reduction in the long-term trend rate of growth resulting from the effects of the interaction between managed care and technological change. Both of these effects are associated with rising spending growth.

If managed care has been a cost-restraining influence in the private sector, another key question for spending projections is the effect of managed care in the public sector, particularly for Medicare's high-use population. Growth in Medicare managed care enrollment is projected to pick up through 2000 as a result of the Balanced Budget Act (BBA) of 1997. However, contrary to experience in the private sector, this growth in enrollment is not expected to reduce growth in overall Medicare spending. Medicare's payment mechanism will continue to be based largely on average per beneficiary costs in fee-for-service Medicare.<sup>14</sup> As a result, managed care

plans are expected to continue to compete for enrollees through the broadening of benefits rather than through price competition. The expected result of the shift to managed care therefore will be observed largely in the form of more comprehensive benefits packages for Medicare managed care enrollees.<sup>15</sup>

The combined effect of public- and private-sector trends in managed care enrollment will restrain growth in real per capita personal health care spending over the projection period. However, this effect will be smaller than it was over the preceding decade.

Access to and affordability of private health insurance coverage also are important issues for health spending growth. Health insurance coverage stimulates demand for health services, because insured consumers pay only a fraction of the costs incurred for services. The recent decline in the insured population is believed to have reduced the

*"Growth in Medicare managed care enrollment is not expected to reduce growth in overall Medicare spending."*

rate of health spending growth.<sup>16</sup>

Because private insurance is primarily provided through employment, coverage rates are driven largely by labor-market conditions that influence the package of wages and benefits offered. Employers attempt to balance the need to restrain costs against the need to attract and retain employees. Our projections assume that recent tight labor-market conditions will result in a short-term increase in the population with private health insurance coverage, with a corresponding modest boost to health expenditures. In the longer term we expect the downward trend in private insurance coverage to resume as growth in health benefit costs continues to exceed growth in compensation and as employees contribute more for their health coverage. The resulting increase in the uninsured population will be a restraining influence on growth in private-sector spending as we approach 2007.

■ **EFFECTS OF THE BBA.** As private health expenditures accelerate over the next three

years, growth in Medicare expenditures is expected to move in the opposite direction, primarily as a result of the BBA.<sup>17</sup> The BBA incorporates four principal types of change to Medicare: (1) introduction of prospective payment across a wide range of services; (2) cutbacks in payment formulas where rates were perceived to be overly generous; (3) increased private insurance options for Medicare beneficiaries; and (4) alterations in regional payment patterns to encourage availability of Medicare HMOs.<sup>18</sup>

Prospective payment shifts to private providers the financial risk of providing the appropriate mix of treatment. By shifting risk, the BBA attempts to slow the increase in per capita costs of medical care by changing the provider incentives associated with fee-for-service payment. The introduction of prospective payment is expected to reduce growth in spending for skilled nursing care, outpatient hospital services, and home health care.

Reductions to provider payment updates through the year 2002 will cause Medicare spending to fall. These cuts are concentrated in the hospital sector, where profit margins associated with treatment of Medicare patients have been rising.<sup>19</sup>

In light of its perceived role in private-sector cost containment, the encouragement of Medicare managed care enrollment might be seen as primarily an attempt to restrain growth in costs. However, under the current payment mechanism, savings from price reductions, emphasis on cost-effective treatment, and avoidance of unnecessary care do not accrue to Medicare. However, the BBA reduces Medicare payments to managed care plans below the previous baseline in two significant ways: directly, by lowering payment updates during 1998-2002, and indirectly, through the impact of fee-for-service savings provisions, which interact with the managed care payment mechanism to reduce payment updates to plans. The implementation of risk adjusters to adjust capitated payments on the basis of health status is scheduled for 2000 and also is expected to reduce Medicare pay-

ments for managed care per beneficiary.

## HIGHLIGHTS OF THE HEALTH SPENDING PROJECTIONS

Growth in health expenditures is expected to turn upward through the end of the century. The rebound in personal health care expenditures will be driven predominantly by increases in use and intensity of services.<sup>20</sup> Excess medical inflation is expected to rise slightly but to remain relatively subdued. This projected pattern of growth is in accord with the trend over the past several years. While declining excess medical inflation contributed to the unusually slow growth in expenditures since 1993, the dominant factor was a decline in the growth of quantity of services, stemming from both use and intensity. The projected rebound in 1998 will mark a reversal of this declining trend in use and intensity, augmented by a more modest increase in medical inflation.<sup>21</sup>

Spending by type of service is likely to differ somewhat from recent patterns (Exhibit 5). Spending on physician services is expected to rebound sharply as additional Medicare beneficiaries move into managed care, causing a reallocation of Medicare expenditures away from inpatient care and toward ambulatory services. The projected rebound in inpatient hospital spending will be dampened by this development.

Growth in prescription drug spending is expected to continue at a relatively rapid pace, supported by continued declines in out-of-pocket payments for drugs associated with the shift of Medicare patients into managed care and an acceleration in new product introductions. Drug-price inflation began to rise in early 1998 and is expected to exceed its relatively slow pace of recent years through 2007.

Expenditures for extended care are expected to decelerate substantially. Growth in home health spending will slow sharply as heightened scrutiny of providers results in tighter controls for Medicare and as the BBA further limits growth in Medicare home health costs. Cutbacks in projected spending

**EXHIBIT 5****National Health Expenditures, Average Annual Growth Rate From Prior Year Shown, Selected Calendar Years 1970-2007**

Spending category	1970- 1980	1980- 1990	1990- 1993	1993- 1996	1996- 1998*	1998- 2001*	2001- 2007*
National health expenditures	12.9%	11.0%	8.6%	5.0%	5.3%	6.5%	7.5%
Health services and supplies	13.3	11.1	8.7	5.0	5.3	6.6	7.6
Personal health care	13.0	11.0	8.6	4.9	4.9	6.4	7.5
Hospital care	13.9	9.6	8.0	3.5	3.4	4.9	6.6
Physician services	12.8	12.5	7.8	3.2	4.7	7.1	7.8
Dental services	11.1	9.0	7.4	6.7	6.2	6.3	6.7
Other professional services	16.3	18.5	10.1	7.8	7.3	8.0	8.1
Home health care	26.9	18.6	20.3	9.7	4.8	7.8	8.0
Drugs and other medical nondurables	9.4	10.7	8.0	6.6	7.7	8.4	8.8
Prescription drugs	8.2	12.1	9.9	7.6	9.3	9.6	9.8
Vision products and other medical durables	8.8	10.7	5.6	2.6	3.8	5.3	5.7
Nursing home care	15.4	11.2	9.2	5.8	5.4	5.5	6.4
Other personal health care	12.0	10.8	17.0	15.4	8.3	10.9	12.8
Program administration and net cost	15.9	13.1	9.8	4.2	10.4	8.0	8.4
Government public health activities	17.5	11.3	8.9	11.9	7.3	7.0	6.9
Research and construction	8.1	7.7	5.8	2.8	3.2	3.7	4.3
Research	10.8	8.4	5.9	5.5	4.1	4.4	4.7
Construction	6.2	7.1	5.7	0.0	2.1	2.8	3.7

SOURCE: Health Care Financing Administration, Office of the Actuary.

\* Projected.

135

for skilled nursing facilities (SNFs) by both Medicare and Medicaid will restrain growth in this area as well, despite an acceleration in private-sector spending.

■ **HOSPITALS.** Based on current data, we expect to find that growth in spending for hospital services slowed in 1997. The lower growth rate is attributable to a slowdown in hospital input price inflation (our measure of medical prices for the hospital sector) and in intensity of services provided per inpatient day. Utilization will be a positive factor for growth, as the rate of decline in inpatient days slows. A modest rebound in expenditures is expected for 1998 as input price inflation increases and the rate of decline in inpatient utilization continues to slow.

Growth in spending for hospital services will remain well below growth in aggregate national health spending throughout the projection interval (Exhibit 5). This is particularly the case for the period through 2001; the hospital spending share is expected to fall from 34.6 percent in 1996 to 32 percent in 2001

(Exhibit 6), a faster rate of decline than has been observed in recent years.

The main explanation for the short-term decline in share is the expected effect on inpatient spending of multiple changes to Medicare associated with provisions in the BBA. The combination of reductions in the growth of Medicare payment rates for hospital services and the effects of substitution away from inpatient care as Medicare beneficiaries move into managed care will restrain Medicare hospital spending. For 1998-2000 Medicare spending for inpatient hospital services is expected to grow at the lowest rate in the program's history (an average of 3 percent per year), compared with 8.2 percent per year for 1993-1996.

Growth in outpatient services also is expected to decelerate from its historically rapid pace over the coming decade, extending a decelerating trend. Medicare's scheduled switch to a PPS for outpatient services in 1999 will contribute to this slowdown.

■ **PROFESSIONAL SERVICES.** Spending

**HEALTH TRACKING: TRENDS**

**EXHIBIT 6**

**National Health Expenditures, Spending By Category, Aggregate Amounts, And Percent Distribution, Selected Calendar Years 1970-2007**

Spending category	1970	1980	1990	1993	1996	1998 <sup>a</sup>	2001 <sup>a</sup>	2007 <sup>a</sup>
National health expenditures (billions)	\$73.2	\$247.3	\$699.5	\$895.1	\$1,035.1	\$1,146.8	\$1,384.1	\$2,133.3
Health services and supplies	67.9	235.6	675.0	866.1	1,003.6	1,113.2	1,346.7	2,085.3
Personal health care	63.8	217.0	614.7	787.0	907.2	998.2	1,203.2	1,859.2
Hospital care	28.0	102.7	256.4	323.0	358.5	383.2	442.7	649.4
Physician services	13.6	45.2	146.3	183.6	202.1	221.4	272.0	427.3
Dental services	4.7	13.3	31.6	39.1	47.6	53.7	64.5	95.2
Other professional services	1.4	6.4	34.7	46.3	58.0	66.8	84.2	134.5
Home health care	0.2	2.4	13.1	22.9	30.2	33.2	41.6	66.1
Drugs and other medical nondurables	8.8	21.6	59.9	75.6	91.4	106.1	135.0	223.6
Prescription drugs	5.5	12.0	37.7	50.0	62.2	74.3	97.9	171.1
Vision products and other medical durables	1.6	3.8	10.5	12.3	13.3	14.3	16.7	23.3
Nursing home care	4.2	17.6	50.9	66.3	78.5	87.3	102.3	148.3
Other personal health care	1.3	4.0	11.2	18.0	27.6	32.4	44.2	91.4
Program administration and net cost	2.7	11.9	40.7	53.8	60.9	74.1	93.4	151.3
Government public health activities	1.3	6.7	19.6	25.3	35.5	40.9	50.1	74.9
Research and construction	5.3	11.6	24.5	29.0	31.5	33.5	37.3	48.0
Research	2.0	5.5	12.2	14.5	17.0	18.4	20.9	27.5
Construction	3.4	6.2	12.3	14.5	14.5	15.1	16.4	20.5
Percent distribution in national health expenditures	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Health services and supplies	92.7	95.3	96.5	96.8	97.0	97.1	97.3	97.8
Personal health care	87.1	87.8	87.9	87.9	87.6	87.0	86.9	87.1
Hospital care	38.2	41.5	36.7	36.1	34.6	33.4	32.0	30.4
Physician services	18.5	18.3	20.9	20.5	19.5	19.3	19.7	20.0
Dental services	6.4		4.5	4.4	4.6	4.7	4.7	4.5
Other professional services	1.9	5.4	5.0	5.2	5.6	5.8	6.1	6.3
Home health care	0.3	2.6	1.9	2.6	2.9	2.9	3.0	3.1
Drugs and other medical nondurables	12.0	8.7	8.6	8.4	8.8	9.3	9.8	10.5
Prescription drugs	7.5	4.9	5.4	5.6	6.0	6.5	7.1	8.0
Vision products and other medical durables	2.2	1.5	1.5	1.4	1.3	1.2	1.2	1.1
Nursing home care	5.8	7.1	7.3	7.4	7.6	7.6	7.4	7.0
Other personal health care	1.8	1.6	1.6	2.0	2.7	2.8	3.2	4.3
Program administration and net cost	3.7	4.8	5.8	6.0	5.9	6.5	6.7	7.1
Government public health activities	1.8	2.7	2.8	2.8	3.4	3.6	3.6	3.5
Research and construction	7.3	4.7	3.5	3.2	3.0	2.9	2.7	2.2
Research	2.7	2.2	1.7	1.6	1.6	1.6	1.5	1.3
Construction	4.6	2.5	1.8	1.6	1.4	1.3	1.2	1.0

SOURCE: Health Care Financing Administration, Office of the Actuary.

<sup>a</sup> Projected.

for physician services is expected to pick up speed over the next four years, with annual increases climbing from a low of 2.9 percent for 1996 to 7.3 percent by 2000. Contrary to the pattern observed for hospital services and extended care, this acceleration is apparent for both public- and private-sector spending, albeit with somewhat different timing. Growth in Medicare spending for physician services is expected to increase slightly in 1998 and 1999 as Medicare beneficiaries shift to managed care. This is principally the result of substitution of physician services for hospital care. Medicare spending for physician services will grow at an annual rate of 8.9 percent for 1997-1999, up from an 8.6 percent average growth rate for 1994-1996. After 2000 growth in Medicare physician spending will slow briefly as risk adjusters are introduced into payment formulas for managed care.

Private-sector physician spending will accelerate from a much lower initial pace than that of public expenditures: an average of 4.7 percent for 1997-1999, up from 1.6 percent for 1994-1996. This acceleration reflects consumers' demand for increasing access to specialists and a wider choice of out-of-network options, coupled with an expected acceleration in medical price inflation, as measured by the Consumer Price Index (CPI) for physician services for 1998-2000.

Spending for other professional services such as specialty clinics and independent practitioners such as podiatrists, optometrists, and chiropractors is projected to increase from 6.8 percent annual growth in 1996 to a peak of 8.3 percent by 2001. Spending for such services has tended to grow rapidly relative to physician services. While growth in this sector is projected to remain relatively high, the gap relative to growth in spending for physician services is expected to taper off over the projection interval, in an extension of the historical trend.

*"The most important moderating influence for growth in health care costs is expected to be the slowdown projected for Medicare and Medicaid."*

■ **DRUGS.** Recent rapid growth in drug costs over the past two years has often been cited as a contributing factor to health plans' escalating costs. Recent higher spending growth is almost entirely accounted for by rising utilization (number of prescriptions) and intensity (including changes in size and mix of prescriptions). Drug price inflation (as measured by the CPI for prescription drugs), which has historically been a major factor in rapid growth, has been relatively restrained since 1993. Excess inflation for prescription drugs averaged only 0.5 percent for 1993-1997, following a period (1982-1993) of 5.3 percent average growth.

Response by both consumers and health plans to slower growth in consumers' out-of-pocket payments for drugs has clearly played a role in the recent rise in utilization. In addition to slower drug price inflation, growth in out-of-pocket expenditures has been low since 1993, which reflects the

shift to managed care, in which copayments for drugs tend to be much lower.

Growth in drug spending is expected to accelerate moderately through 1998 and to sustain fairly rapid rates of growth through 2007. Real per capita growth is expected to average just below 6 percent, about equal to the average during the 1980s. While drug prices are projected to accelerate from recent lows, average inflation rates are assumed to remain below the exceptionally rapid pace of the 1980s, with excess drug price inflation averaging 1.7 percent for 1998-2007. Rapid growth in use and intensity are expected to continue to account for most of the growth in spending.

■ **NURSING HOMES AND HOME HEALTH.** Expenditure growth for nursing home care is expected to accelerate briefly in 1997 and then decelerate for 1998-2000, growing 5.1 percent on average (down from 5.8 percent for 1993-1996). This slowdown is accounted for by the effects of slower growth in

Medicaid expenditures and a sharp cutback in the rate of growth for Medicare spending after the introduction of prospective payment. The decline in public-sector funding is expected to be partially offset by an acceleration in private-sector funding, primarily from out-of-pocket expenditures. Slower growth in nursing home spending also reflects the somewhat slower growth of the population over age eighty-five. Growth in population for this group is expected to average 2.4 percent, compared with 3.2 percent for 1980-1996.

Growth in home health spending has decelerated sharply from the rapid pace of growth over the past decade. Lower growth is estimated for 1997, with expenditures increasing only 3 percent as agencies gear up for the effects of new limits and new aggregate per beneficiary caps under Medicare introduced in October 1997.<sup>22</sup>

Despite the restraining effects of the BBA, home health spending is expected to continue to outpace growth in total national health spending over the projection interval. Some of the lower growth in Medicare spending will be offset by increased growth in expenditures by private-sector payers and Medicaid.

## CONCLUSION

Dramatic changes have taken place in modes of payment and delivery for health care services, particularly in the private sector, over the past decade. The rapid rate of increase in health benefits costs, combined with near-stagnation in real wages, made the search for alternatives to the unrestrained fee-for-service model increasingly worthwhile for employers, while reducing employees' resistance to change. The key outcome of this development was the strong growth in private managed care enrollment, which has proved successful in containing costs for health benefits in the private sector, at least in the short term. Real per capita growth in spending in the public sector, in which structural changes have been less extensive in recent years, has been rapid in comparison to the private sector since 1989, following a period of relatively slow growth in public-sector spending throughout the 1980s.

One critical question for the coming decade is whether managed care and other related changes in modes of payment can continue to restrain growth in health care costs. Although the expansion of managed care will continue to be a factor in determining growth in health care costs, it will play a smaller role than it has in recent years. This is largely due to the anticipated slowdown in private-sector enrollment as penetration exceeds the 85 percent rate reached in 1997.<sup>23</sup>

Two developments are likely to have more important effects on health spending growth over the coming decade. The most important moderating influence for growth in health care costs is expected to be the slowdown projected for Medicare and (to a lesser extent) Medicaid. For Medicare, this reduction will occur in response to cost-containing provisions of the BBA, including the implementation of prospective payment for a wide range of services, as well as scheduled reductions in payment rates to providers. The second development is the recent higher growth in real per capita income, which, when combined with the anticipated slowdown in private-sector managed care enrollment increases, will boost growth in real per capita private health spending. This trend will more than offset the slower growth expected for the public sector, producing a net acceleration in growth for aggregate real per capita national health spending.

While spending growth is projected to accelerate over the next few years, our analysis concludes that the changes in markets for health care experienced over the past decade can be expected to slightly moderate the rate of growth in real per capita health care spending. However, this reduction is unlikely to be substantial enough to offset long-term pressures on the system associated with growing demands on available economic resources, both for the public and the private sectors.

*The opinions expressed here are the responsibility of the authors and do not necessarily represent the views of the Health Care Financing Administration.*

## NOTES

1. Deflated using the gross domestic product (GDP) deflator.
2. A large fraction of the acceleration in real per capita growth apparent in 1998 is actually associated with a sharp dip in the GDP deflator, which is projected to increase only 1.2 percent in 1998, down from 2 percent in 1997. The increase in nominal terms is much less dramatic: Nominal growth in aggregate national health spending is projected to increase from 4.8 percent in 1997 to 5.8 percent in 1998, compared with an increase in real per capita growth from 1.8 percent in 1997 to 3.5 percent in 1998.
3. The age-sex indices were developed using the following surveys: 1993 National Health Interview Survey, 1987 National Medical Expenditure Survey, 1990 National Hospital Discharge Survey, 1992 National Hospital Ambulatory Medical Care Survey, and 1985 National Nursing Home Survey. Population by age was based on Social Security Administration Area Population projections from the 1998 trustees' report.
4. This representation is clearly an oversimplification of the actual changes associated with the growth of "managed care," which leaves room for substantial variation in the actual techniques used to restrain costs. Many PPOs manage care wholly or primarily by constraining access to a restricted panel of providers who agree to discounted rates, whereas HMOs often play a more active role in the determination of the nature of services provided through utilization management. Although such differences exist and have implications for the effects of managed care over time, an analysis of shifts within managed care is beyond the scope of this paper.
5. Our projections are based on the intermediate set of economic and demographic assumptions used in the 1998 annual reports of the Old-Age and Survivors Insurance and Disability Insurance (OASDI) and Medicare Boards of Trustees to Congress. For certain additional variables, including components of key input price indexes for hospitals, skilled nursing facilities, and home health agencies, as well as disposable income, we have relied on February 1998 forecasts from Standard and Poor's DRI, adjusted for consistency with macroeconomic projections from the OASDI Trustees Report.
6. Board of Trustees, Federal Hospital Insurance Trust Fund, 1998 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund, House Document 105-245 (Washington: U.S. Government Printing Office, 1998), 1-98; and Board of Trustees, Federal Supplementary Medical Insurance Trust Fund, 1998 Annual Report of the Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund, House Document 105-244 (Washington: U.S. GPO, 1998), 1-78.
7. Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, 1998 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, House Document 105-243 (Washington: U.S. GPO, 1998), 1-219.
8. W.G. Manning et al., "Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment," *American Economic Review*, 77, no. 3 (1987): 251-277; and T. Getzen, *Health Economics: Fundamentals and Flow of Funds* (New York: John Wiley and Sons, 1997), 388-395, 418-421.
9. T. Getzen, "Macroeconomic Forecasting of National Health Expenditures," in *Advances in Health Economics and Health Services Research*, vol. 11, ed. R. Scheffler and L. Rossiter (Greenwich, Conn: JAI Press, 1990), 27-48; and J. Cookson and P. Reilly, *Modeling and Forecasting Health Care Consumption*, Milliman and Robertson Research Report (Radnor, Pa.: Milliman and Robertson, 19 May 1994), 1-25.
10. Throughout this paper we use the term *fee-for-service* as a synonym for the largely unrestricted (unmanaged) form of fee-for-service coverage, which was the dominant form of health insurance coverage into the 1990s, although, strictly interpreted, the term is not exclusive of some types of managed care, since some PPOs continue to pay for services primarily on a (discounted) fee-for-service basis.
11. R. Miller and H. Luft, "Managed Care Plan Performance since 1980: A Literature Analysis," *Journal of the American Medical Association* 271, no. 19 (1994): 1512-1519; D. Cutler and L. Sheiner, "Managed Care and the Growth of Medical Expenditures," NBER Working Paper Series no. 6140 (Cambridge, Mass.: National Bureau of Economic Research, August 1997); J. Zwanziger and G.A. Melnick, "Can Managed Care Plans Control Health Care Costs?" *Health Affairs* (Summer 1996): 185-199; and L. Baker and S. Shankarkamur, "Managed Care and Health Care Expenditures: Evidence from Medicare, 1990-94," NBER Working Paper Series no. 6187 (Cambridge, Mass.: National Bureau of Economic Research, September 1997).
12. M. Chernew, A.M. Fendrick, and R.A. Hirth, "Managed Care and Medical Technology: Implications for Cost Growth," *Health Affairs* (March/April 1997): 196-206; D. Cutler, "Technology, Health Costs, and the NIH" (Paper prepared for the National Institutes of Health Economics Roundtable on Biomedical Research, Bethesda, Maryland, September 1995), 1-32; and B. Weisbrod, "The Health Care Quadrilemma:

- An Essay on Technological Change, Insurance, Quality of Care, and Cost Containment," *Journal of Economic Literature* (June 1991): 523-552.
13. Cutler and Sheiner, "Managed Care and the Growth of Medical Expenditures."
  14. The BBA modifies but does not eliminate this link. Relevant provisions include restraints on growth in payment rates, the introduction of risk adjusters in 2000, and the carve-out of payments for disproportionate share. The introduction of risk adjusters to payment formulas in 2000 is expected to reduce problems with favorable selection bias into managed care plans.
  15. The introduction of risk adjusters to payment formulas for managed care, scheduled for the year 2000, will reduce the rate of increase to Medicare cost growth associated with the movement of beneficiaries to managed care.
  16. A. Krueger and H. Levy, "Accounting for the Slowdown in Employer Health Care Costs," NBER Working Paper Series no. 5891 (Cambridge, Mass.: National Bureau of Economic Research, January 1997), 1-28.
  17. Board of Trustees, HI Trust Fund, *1998 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund*, 1-98; and Board of Trustees, SMI Trust Fund, *1998 Annual Report of the Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund*, 1-78.
  18. Initial implementation was scheduled for nursing homes in July 1998, for hospital outpatient services in January 1999, and home health services in October 1999.
  19. Medicare Payment Advisory Commission, *Report to the Congress: Medicare Payment Policy*, vol. 1 (Washington: MedPAC, March 1998), 53-55.
  20. Includes spending for hospital care; physician, dentist, and other professional services; home health care; durable and nondurable medical products; nursing home care; and other personal health care.
  21. Although this general pattern of growth is believed to be credible, one caveat is called for in interpreting its implications. Within the projections model, medical prices are measured by a mix of consumer price indexes (CPIs) and input price indexes. Neither of these types of indicators is likely to accurately capture variation in medical prices. The medical CPIs, in particular, are likely to miss much of the variation in prices which results from negotiated discounts from list prices. Since measurement error is captured in our measure of intensity, this may result in an understatement of the contribution of variations in medical inflation to health expenditures growth.
  22. The Health Care Financing Administration's (HCFA's) program-integrity efforts appear to have contributed to a marked slowdown in Medicare cost growth in 1997 prior to the implementation of the BBA.
  23. Mercer/Foster Higgins, *National Survey of Employer-Sponsored Health Plans* (New York: William M. Mercer, Inc., 1997), 9.

File POTUS notes

Jennings FY - DC

THE PRESIDENT HAS SEEN 5-11-98

**Policy:** More cash for NIH would benefit managed care firms; there are better ways to spend public dollars.

By MICHAEL D. REAGAN

President Clinton wants to add 10%, or \$1.15 billion, to the National Institutes of Health budget for fiscal 1999, bringing the total to \$14.8 billion. And doubling the NIH budget in five years is being seriously discussed in Congress. That's a no-brainer, a great idea, right? But compared with other needs? Maybe not.

Some of those other needs are within medical care:

• The 1997 Balanced Budget Act included more than \$20 billion to develop health coverage for perhaps half of the country's uninsured children; that leaves 5 million other children uninsured. Can we assume that all of the \$14 billion it will take to double NIH's budget will be better spent than if some or all of it were spent on coverage for more kids?

• Congress and the administration are hellbent on reducing the cost of Medicare by shoving seniors into HMOs. Maybe some of the money could be used to lessen the pressure on seniors to give up their long-time family physicians in order to accept cheaper care through managed care organizations.

• California has led the way in showing that sophisticated, strongly phrased anti-smoking messages can markedly reduce that drug's contribution to sickness and death rates. Might not a national campaign built on this state's model (that is, the model in operation when Gov. Pete Wilson was not curbing the anti-tobacco campaign in the mass media) be a better use of some of that money, conceivably preventing millions of cancers?

• More testing might be a competitive use of a chunk of money. This was a bad flu year, yet only half of Americans over 65 get annual flu shots. Insulin-dependent diabetes mellitus patients are susceptible to a condition that is the leading cause of blindness. Yet a survey of a few years ago found that only half of patients had the recommended dilated eye exam within the surveyed year and 20% had had no eye exam in two years.

• Better medical care can be obtained with less waste, if we devote more funding to clinical evaluation of existing treatments, procedures and off-label uses of approved drugs. Only about one-eighth of 1% of U.S. health spending supports that kind of health services research, which is needed to develop cost-effective guidelines and reduce inappropriate and ineffective treatments. That work is done not in NIH but in the meagerly funded Agency for Health Care Policy and Research in the Public Health Service.

If \$14 billion is added to NIH, while Congress requires itself not to unbalance the budget, we need to ask what alternative uses outside of medicine might well be worth consideration?

• President Clinton has again proposed budgeting \$5 billion for school modernization, after abandoning an earlier version last year. That's nice—but the General Accounting Office estimated the national need at \$112 billion. And early Head Start, combined with food and health treatment for very young children, is a winner in usefulness, but still greatly underfunded.

• An Alameda County research study in the New England Journal of Medicine con-

**'Better medical care can be obtained, and with less waste, if we devote more funding to clinical evaluation of existing treatments, procedures and off-label uses of approved drugs.'**

firmed that long-term poverty is a causative factor in depression and other mental problems. Perhaps more money should be pumped into the federally funded but locally operated community development programs that are reviving economically depressed inner cities. And into sadly neglected vocational education for non-college-bound youth.

• Environmental protection programs

are producing cleaner air and water and are beneficial both to the economy and to the nation's health. Their slow pace could be picked up with more money.

Are all of these needs less urgent than increasing medical technology expenditures at the rate of 15% a year? Imagine what could be done with schools, inner-city housing and economic development, public transportation so that ex-welfare clients can get to the suburban jobs in need of workers and other urban and rural infrastructure needs if we increased their budgets 15% a year.

The NIH budget proposals are being justified in part as needed to make up a shortfall caused by managed care companies' reluctance to pay routine costs of patients in early clinical trials and by academic medical centers' deteriorating financial situations (also partly caused by the economics of managed care competition). Consider this irony: Because the companies paying extraordinarily high executive salaries and squeezing patient expenses to keep Wall Street happy don't want to continue contributing to clinical trials, we taxpayers are to give No. 1 budget priority to NIH.

Because health plans are immediate beneficiaries of federally funded medical research, why shouldn't Congress legislate instead that these firms set aside some small percentage of income to continue contributing to research? In short, why should medical research win the budget sweepstakes without even having to compete?

Michael D. Reagan is an emeritus professor of public policy at UC Riverside.



File POTUS  
no 8

5-6-98

Copied  
Gellen  
Cuomo  
Jennings  
Bowles

## BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

**Has Falling Union Membership Contributed to Rising Inequality?** Rising wage inequality among men over the past 25 years has occurred at a time when male union membership has been falling dramatically. A new study estimates that the sharp drop in male union membership from 31 percent in 1973-4 to 19 percent in 1993 can explain 10 to 20 percent of the rise in male wage inequality over that period. Other studies have found that the fall in union membership can account for about one-quarter of the rise in male wage inequality over the 1980s. Declining union membership can increase wage inequality because unions tend to increase wages for low-skilled workers relative to high-skilled workers. The recent study also found that in the public sector, where membership has increased, union membership has apparently forestalled rising wage inequality to a significant degree. There was little overall change in union membership for women over the period studied.

**Study Documents Continuing Crisis in Low-Income Rental Housing.** Despite robust economic growth between 1993 and 1995, the number of households with "worst-case" housing needs remained at an all-time high of 5.3 million, according to a new study from the Department of Housing and Urban Development. Households with worst-case needs are defined as unassisted renters with incomes below 50 percent of the area median who pay more than half of their income for rent or live in severely substandard housing. While all of these families qualified for HUD assistance, the Department did not have adequate funding to help them. The number of families with worst-case needs increased by 8 percent between 1991 and 1993 and then held steady between 1993 and 1995. Worst-case needs increased dramatically for working poor families over this period, rising by 24 percent between 1991 and 1995. The number of rental units affordable to families with less than half the area median fell by 900,00 units (9 percent) between 1993 and 1995.

**GAO Reports on Uninsured Medicaid-Eligible Children.** In 1996, 3.4 million Medicaid-eligible children—23 percent of those eligible under the Federal mandate—were among the 10.6 million children without health insurance, according to a recent study from the General Accounting Office. The report finds that the demographic and socioeconomic characteristics of uninsured Medicaid-eligible children suggest that outreach strategies could be targeted to specific groups. In particular, the majority were children of the working poor or near poor, and their parents were often employed by small firms and were themselves uninsured. Hispanics have the highest uninsured rate among uninsured Medicaid-eligible children. Over one-third of uninsured Medicaid-eligible children live in immigrant families. And nearly three-quarters of the uninsured Medicaid-eligible children live in the West and South. The study reports that some states have undertaken education and outreach initiatives and have tried to change the image of the program and simplify enrollment. However, more effort to target immigrant and ethnic communities might be warranted, and other strategies provided for in the Balanced Budget Act—such as continuous enrollment and presumptive eligibility—have not been widely implemented.

cc: Steve Cuomo  
W. Michael  
to: Don Nelson  
Mark  
Wright  
Karin  
BR

cc: Jennings  
can call  
Don Nelson on  
this?  
BR

File ~~Good~~  
POTUS notes

Catching  
Anything you can/should do  
about this

WASHINGTON EDITION

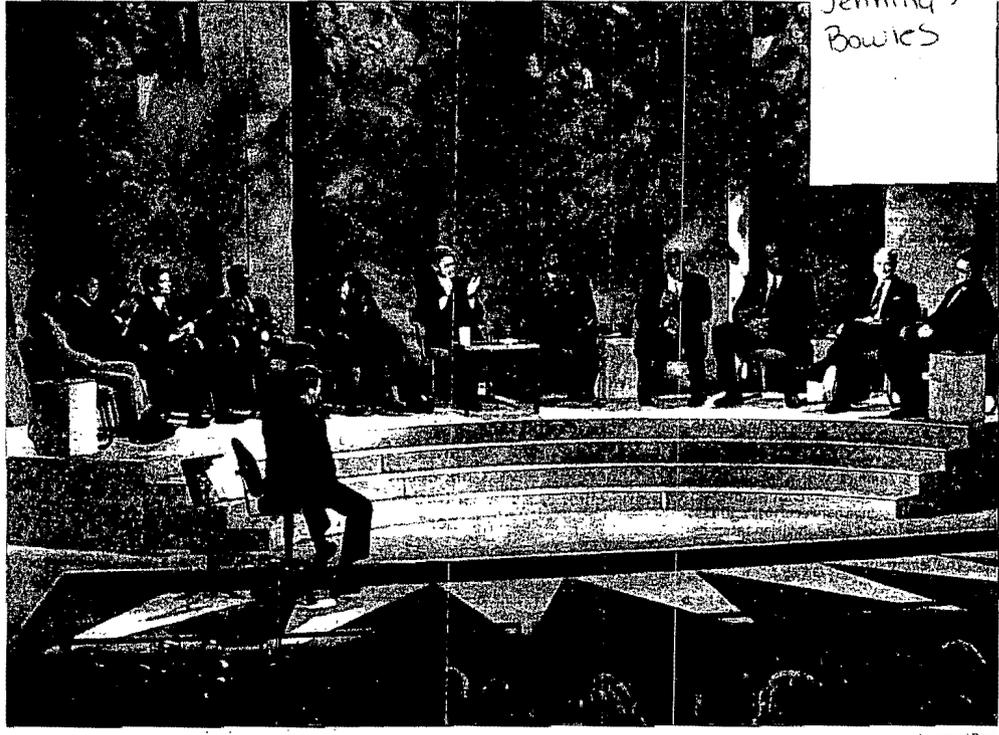
# Los Angeles Times

Wednesday  
April 15  
1998

COPYRIGHT 1998  
THE TIMES MIRROR COMPANY

DAILY \$1.00  
AN EDITION OF THE LOS ANGELES TIMES

## A Sporting Exchange



President Clinton speaks at forum on race and sports in Houston on Tuesday. Joining him are, from left, Jackie Joyner-Kersey, Dennis Green, Carmen Policy, Joe Morgan, Keyshawn Johnson, Jim Brown, Felipe Lopez, John Thompson, Vince Dooley and John Moores. A4

Copied  
Jennings  
Bowles

## Medications Kill 100,000 a Year, Study Says

**Health:** Adverse reactions to prescribed drugs are found to be far more common than previously thought. But some question research methods.

By **TERENCE MONMANEY**  
TIMES MEDICAL WRITER

Properly prescribed medications may kill more than 100,000 people a year, taking more lives than diabetes or pneumonia, according to a new analysis that suggests prescription medications cause more harm than previously believed.

The study, appearing today in the Journal of the American Medical Assn., estimates that 76,000 to 137,000 people died in 1994 from such treatments. That would make so-called adverse drug reactions between the sixth and fourth leading cause of death in the United States.

Moreover, of the 33 million hospitalized patients in 1994, some 2.2 million had a nonfatal reaction serious enough to require medical attention, the researchers say.

Although some experts questioned the study's methods, the new estimates put the problem in the most dramatic light yet.

The study "puts into clear perspective that adverse drug reactions are a major form of death and injury that can be prevented," said Dr. Sidney Wolfe, director of the Public Citizen Health Research Group. He said the injuries and deaths detailed in the study are nearly twice as high as estimates recently done by his consumer group.

The findings should not encourage people to abandon vital medications, said the study's leader, Dr. Bruce Pomeranz of the University of Toronto, who said he was surprised by the death toll. "What's needed is more awareness of the potential problems with taking some drugs. Before you take a medication you should know about its risk-benefit ratio," he said.

In addition, Pomeranz and other researchers say that the new findings should spur hospitals and doctors to monitor patients more closely to reduce potential toxic drug reactions.

The Pharmaceutical Research and Manufacturers of America, an drug industry group, cautioned patients not to panic. "Prescription medicines are safe and effective when used properly," president Alan Holmer said in a statement.

The analysis did not specify which drugs were most risky or what diseases patients had when the adverse reactions occurred. But other studies have found that the drug types causing the most serious medical problems in hospitalized patients are painkillers—from narcotics that halt breathing to aspirin

## Virginia Rejects Pleas, Executes Paraguayan

By **NORMAN KEMPSTER**  
TIMES STAFF WRITER

WASHINGTON—The governor of Virginia refused Tuesday night to block the execution of a 32-year-old Paraguayan citizen, brushing aside a warning from U.S. Secretary of State Madeleine Albright that the case could undermine international justice and endanger American citizens traveling abroad.

Minutes after Gov. James S. Gilmore III rejected clemency, Angel Francisco Breard was executed by lethal injection at the state prison in Jarratt, about 55 miles south of Richmond.

The governor said Breard "was convicted and sentenced to death for the attempted rape and brutal murder" of a 39-year-old neighbor, Ruth Dickie, in 1992. The U.S. Supreme Court refused to intervene Tuesday.

The case attracted international attention because Breard was never informed of his right to receive diplomatic assistance from the Paraguayan Embassy, as required by the Vienna convention, a cornerstone of international law.

Police in the Washington suburb of Arlington, where the crime took place, admitted that they had not

## Times Wins 2 Pulitzers for Spot News, Photos

**Journalism:** Honors bestowed for bank shootout, addiction stories. Public service prize goes to N.D. paper.

By **DAVID SHAW**  
TIMES STAFF WRITER

The Los Angeles Times won two Pulitzer Prizes and the New York Times won three Tuesday, but the most coveted Pulitzer of all—the gold medal for meritorious public service—was awarded to the small Grand Forks, N.D., Herald (circulation 37,000) for its coverage of the March 1997 floods and fire that destroyed more than 10% of the city's homes and ravaged the newspaper's own offices.

The Pulitzer Prize Board praised

**PULITZER FOR BOTH**  
Novelist Philip Roth won in fourth time as finalist. A6

the Grand Forks paper for its "sustained and informative coverage, vividly illustrated with photographs, that helped hold its community together in the wake" of disaster.

The Los Angeles Times won its Pulitzers in the spot news category for "comprehensive coverage of a botched bank robbery and subsequent police shootout" in North Hollywood last spring and in the

photographs—22 in all—were published last fall, illustrating the paper's two-day series of stories on "Orphans of Addiction" written by reporter Sonia Nazario.

Most Pulitzers are given to individuals, but the prize for the shootout coverage was given to The Times' staff, 30 of whom worked on various aspects of the story on the first day alone; this was the third Pulitzer in six years awarded to the entire local reporting staff of The Times for coverage of a Southern California tragedy. The staff also won Pulitzers in 1993 for coverage of the riots in South Central Los Angeles and in 1995 for the Northridge earthquake.

This was the fourth time since 1969 that The Times has won two Pulitzers in a single year. The paper has now won 22 since its first in 1942.

The New York Times, which has won 77 Pulitzers—more by far than any other news organization—won three Tuesday for the fourth time since 1978. The three went to: Linda Greenhouse, in beat reporting, for her "consistently illuminating coverage of the United States Supreme Court;" to Michiko Kakutani, in criticism, for her "insightful intelligent writing on

## Debate Derails Disposal Plan for Napalm

By **ERIC LICHTBLAU**  
TIMES STAFF WRITER

A decade ago, it was a barge loaded with garbage that generated an international stink, floating homeless down the East Coast because no one would take its contents.

Now it is a rail car filled with napalm, bound for the Chicago area from Southern California this week amid a runaway debate about how best to dispose of the deadly chemical remnants of the Vietnam War.

The train left Fallbrook in northern San Diego County on Saturday carrying two 6,000-gallon drums of napalm in one car. It rumbled through Texas on

Tuesday, headed for an Indiana treatment plant as the first step in a two-year plan to dispose of 3 million gallons of the jellied gasoline and turn it into industrial fuel.

But there is a hitch: The treatment plant no longer wants the stuff, and an array of powerful people in the Midwest wants the train to turn around.

The political maelstrom that the disposal has generated in the Chicago area in recent weeks "has made it impossible to continue with this napalm recycling project," Pollution Control Industries President Robert L. Campbell said Tuesday. The tug of war over the



ston on Tuesday. Joining him are, from left, Jackie Joyner-Kersey, Dennis Brown, Felipe Lopez, John Thompson, Vince Dooley and John Moores. A4

## ns 2 Pulitzers News, Photos

estowed for bank shootout,  
service prize goes to N.D. paper.

two  
ork  
the  
the  
blic  
all  
cu-  
the  
hat  
the  
he  
sed  
n  
is-  
ge,  
o-  
qi-  
of  
its  
ry.  
a  
e-  
th  
he  
or  
ul  
of  
ts  
he

photographs—22 in all—were published last fall, illustrating the paper's two-day series of stories on "Orphans of Addiction" written by reporter Sonia Nazario.

Most Pulitzers are given to individuals, but the prize for the shootout coverage was given to The Times' staff, 30 of whom worked on various aspects of the story on the first day alone; this was the third Pulitzer in six years awarded to the entire local reporting staff of The Times for coverage of a Southern California tragedy. The staff also won Pulitzers in 1993 for coverage of the riots in South Central Los Angeles and in 1995 for the Northridge earthquake.

This was the fourth time since 1989 that The Times has won two Pulitzers in a single year. The paper has now won 22 since its first in 1942.

The New York Times, which has won 77 Pulitzers—more by far than any other news organization—won three Tuesday for the fourth time since 1978. The three went to: Linda Greenhouse, in beat reporting, for her "consistently illuminating coverage of the United States Supreme Court," to Michiko Kakutani, in criticism, for her "passionate, intelligent writing on books and contemporary literature," and to the New York Times staff for its "revealing series that

Please see PULITZER, A6

## Debate Derails Disposal Plan for Napalm

By ERIC LICHTBLAU  
TIMES STAFF WRITER

A decade ago, it was a barge loaded with garbage that generated an international stink, floating homeless down the East Coast because no one would take its contents.

Now it is a rail car filled with napalm, bound for the Chicago area from Southern California this week amid a runaway debate about how best to dispose of the deadly chemical remnants of the Vietnam War.

The train left Fallbrook in northern San Diego County on Saturday carrying two 6,000-gallon drums of napalm in one car. It rumbled through Texas on

Tuesday, headed for an Indiana treatment plant as the first step in a two-year plan to dispose of 3 million gallons of the jellied gasoline and turn it into industrial fuel.

But there is a hitch: The treatment plant no longer wants the stuff, and an array of powerful people in the Midwest wants the train to turn around.

The political maelstrom that the disposal has generated in the Chicago area in recent weeks "has made it impossible to continue with this napalm recycling project," Pollution Control Industries President Robert L. Campbell said Tuesday. The tug of war over the issue has given the firm no choice but to pull out of the \$1.7-million contract, he said.

Please see NAPALM, A5

# Kill 100,000 a Year, Study Says

Health: Adverse reactions to prescribed drugs are found to be far more common than previously thought. But some question research methods.

By TERENCE MONMONEY  
TIMES MEDICAL WRITER

Properly prescribed medications may kill more than 100,000 people a year, taking more lives than diabetes or pneumonia, according to a new analysis that suggests prescription medications cause more harm than previously believed.

The study, appearing today in the Journal of the American Medical Assn., estimates that 76,000 to 137,000 people died in 1994 from such treatments. That would make so-called adverse drug reactions between the sixth and fourth leading cause of death in the United States.

Moreover, of the 33 million hospitalized patients in 1994, some 2.2 million had a nonfatal reaction serious enough to require medical attention, the researchers say.

Although some experts questioned the study's methods, the new estimates put the problem in the most dramatic light yet.

The study "puts into clear perspective that adverse drug reactions are a major form of death and injury that can be prevented," said Dr. Sidney Wolfe, director of the Public Citizen Health Research Group. He said the injuries and deaths detailed in the study are nearly twice as high as estimates recently done by his consumer group.

The findings should not encourage people to abandon vital medications, said the study's leader, Dr. Bruce Pomeranz of the University of Toronto, who said he was surprised by the death toll. "What's needed is more awareness of the potential problems with taking some drugs. Before you take a medication you should know about its risk-benefit ratio," he said.

In addition, Pomeranz and other researchers say that the new findings should spur hospitals and doctors to monitor patients more closely to reduce potential toxic drug reactions.

The Pharmaceutical Research and Manufacturers of America, an drug industry group, cautioned patients not to panic. "Prescription medicines are safe and effective when used properly," president Alan Holmer said in a statement.

The analysis did not specify which drugs were most risky or what diseases patients had when the adverse reactions occurred. But other studies have found that the drug types causing the most serious medical problems in hospitalized patients are painkillers—from narcotics that halt breathing to aspirin pills that induce stomach bleeding; antibiotics and antiviral drugs, which can cause severe diarrhea.

Please see DRUGS, A8

this country's economic development: near full employment, low inflation, the stock market continuing to "outbull" itself. Yet the line between the well-off and the not well-off seems to be growing more marked. What role do you see for antitrust in this?

**Answer:** Antitrust really is the part of the economic team in government that focuses on consumers. Our concern is not simply what's good for business, but what's good for America's consumers. That is as true for the sort of small-time, one-time consumer. . . . We've done cases recently involving the price of school milk—you're talking only about a few cents on a carton of milk—up through some very sophisticated technologies, whether it's telephones, computers. But I think, in that respect, antitrust is probably the most focused part of the government's economic analysis in terms of consumer interests.

**Q:** Couldn't that have been said of antitrust over the years, and this is really just a shift of rhetoric here? Hasn't it always been to protect the consumer?

**A:** When it did what it was supposed to do, it's always been consumer focused. However, there were times in the history of antitrust where, I think, people worried about competitors. In other words, they were concerned about the

Ronald J. Ostrow has covered the Justice Department and related assignments for *The Times* since 1966.

petitioners in the courts. And if there is a stronger or a more efficient competitor, our job is not to hamper that competitor.

**Q:** With the global economy becoming more of a reality every day, is there a danger that vigorous antitrust enforcement's going to be a brake on the ability of U.S. companies to compete?

**A:** I think it's just the opposite. You started out by saying, look at how strong our economy is right now. I think there's no doubt the American economy is the strongest in the world. But it's also the most competitive economy in the world. If you look at what's going on in Asia and elsewhere, you see some of the problems that these countries face because of regulatory protection, of a model that says let's protect our domestic firm in the international arena. I think that hurts a country's businesses. The U.S. economy right now is a very competitive economy, and we need to make sure, through the appropriate enforcement of the antitrust laws, that that competition remains vigorous domestically.

**Q:** Do you think, in the case of Japan, that that might be what's happening with their economy right now?

**A:** I think that's part of what's going on. . . . People are not used to competing in the rough and tumble. That's one of the problems I think that we dealt with in the breakup of American Telephone and Telegraph, where you had a long-term monopoly, used to a highly

And based on our analysis, the price of those cans would have gone up some and that would have been passed right along to every consumer who drinks a soda pop or a beer out of an aluminum can.

We had a recent case involving a merger between Scott Paper and Kimberly-Clark. These were basic consumer products like Baby Wipes, in which we required divestiture in order to keep the prices down. . . . We did a case in Texas on the cost of white bread, a basic commodity.

**Q:** Mergers are at an all-time high. Do the numbers themselves call for greater antitrust enforcement, or is there a change in the nature of these mergers that underscores the need for greater enforcement?

**A:** I think there are two or three things that lead to this. Obviously, if you see a rise in the numbers, pure and simple, that's going to mean you're likely to have more enforcement action just as a percentage.

But there are two things that are really key here. One is that these are strategic mergers. These are not leveraged buyouts. These are not, if you will, economic takeovers. These are people looking either for synergy in their businesses, which would be good for consumers, or looking for market power, which would be not so good for consumers.

The second factor is, if you look at the size of these mergers, up until quite

And based on our analysis, the price of those cans would have gone up some and that would have been passed right along to every consumer who drinks a soda pop or a beer out of an aluminum can.

We had a recent case involving a merger between Scott Paper and Kimberly-Clark. These were basic consumer products like Baby Wipes, in which we required divestiture in order to keep the prices down. . . . We did a case in Texas on the cost of white bread, a basic commodity.

Then, of course, we do some much more elaborate and complicated cases like AT&T. But if you look at the AT&T divestiture, from 1984 to today, in real terms, adjusted for inflation, the cost of a long distance phone call has come down 60%. You can get frequent flyer miles, you can get this "x" cents a minute kind of deal. Remember when we all had the rotary dial telephones, and you look [today] at the kinds of services. A lot of that is the product of competition that we set in place—the Justice Department did—in the AT&T breakup. And there are numerous other cases we're looking at.

I've announced this issue of airline pricing in hub cities. This is obviously a real concern for America's consumers, and we are doing the work to find out whether there are important antitrust issues there or not.

**Q:** About this job, do you find it more challenging, rewarding or less of a nightly problem when you go home from working here, than in the [White House] counsel's office?

you do in that job has those kinds of dimensions to it.

I enjoyed my time in the White House. I thought it was a very valuable time. I believe I made a real contribution there. But it's a different set of skills and different people, I think, enjoy themselves more or less, depending on the nature of the experience.

**Q:** On Microsoft, do you see that as the first in a series of actions in that field, in that industry?

**A:** Well, it's obviously an industry that's very critical to our economy. We are certainly devoting appropriate resources to analyze, consider and think about what future actions one would take.

Part of what we're trying to do is see what the appropriate general principles are for conduct in this very fast-moving, high-tech industry. But it's also an industry that involves a huge number of consumers who essentially are often interconnected with respect to a single product—so there are issues of market power in this industry.

I think it's very hard to anticipate when you have ongoing investigations what the ultimate outcome will be. But it's hardly surprising to me that people in the antitrust area will, I think, as we move into the 21st century, certainly be focused on the relationship of antitrust to high-tech society, and an economy that's essentially an information-based economy. So I would expect those issues will be with us for some time.

## NATION

# DRUGS: Study Finds 100,000 Deaths a Year

Continued from A1

and cardiovascular and anticoagulant drugs, which can cause a range of problems including internal bleeding.

In addition, some people are allergic or sensitive to particular drugs, while other bad reactions happen when two or more drugs are combined. For instance, the widely prescribed allergy drug terfenadine, or Seldane, was withdrawn from the market this year after reports that it triggered heart rhythm problems in people also taking the commonly administered antibiotic erythromycin.

Adverse drug reactions especially trouble the elderly, experts say, because they are more likely to have multiple underlying health problems and also tend to have a weakened liver and kidneys, the organs that break down and eliminate medications.

Medical researchers believe that adverse drug reactions have been underestimated for years. That is chiefly because hospitals and physicians seldom report such reactions, dismiss them as unavoidable or mistake them for disease symptoms.

The U.S. Health Care Financing Administration last fall proposed new federal regulations requiring hospitals to step up drug-reaction monitoring. But some physicians have criticized the proposed monitoring system, which would involve periodic reviews of

patient charts, as intrusive and costly.

In their study, the Toronto researchers pooled and analyzed data from 39 U.S. studies on adverse drug reactions published between 1964 and 1996. They looked at two groups: Patients who underwent an adverse drug reaction while in the hospital that was at

midpoint of 106,000 drug-induced deaths. That means that in 1994—which the researchers chose as a representative year—0.32% of patients on a prescription drug, or three out of every thousand, had a fatal reaction.

Their approach was "conservative," the researchers

**'What's needed is more awareness of the potential problems with taking some drugs. Before you take a medication you should know about its risk-benefit ratio.'**

DR. BRUCE POMERANZ

Of the University of Toronto, who said he was surprised by the death toll

least serious enough to prolong their stay, and also outpatients who had a drug reaction bad enough to hospitalize them.

While other studies have looked at those two groups separately, this was the first to combine them, leading to the "extremely high" prevalence of drug reactions, as the researchers called it.

Between the upper and lower fatality estimates is the

said, in that they focused only on correctly prescribed drugs. Their analysis did not consider other sources of prescription drug problems, such as patient compliance errors, intentional overdoses, narcotic abuse and accidental poisonings.

Nor did the researchers consider the presumably large number of people with bad drug reactions who were not subsequently hospitalized.

"The truth is we missed a lot of people," Pomeranz says, including those who "died at home."

Still, other researchers questioned aspects of the study because it is a "meta-analysis," which involves statistically analyzing data pooled from other studies, rather than studying real people. It is often difficult to establish that a very sick person died from a drug reaction rather than an underlying illness, said Dr. John Burke, a medical epidemiologist at LDS Hospital in Salt Lake City, who has studied adverse drug reactions.

He urged caution in accepting the study as fact, but also praised it as a "spur to action" in attacking the problem of adverse drug reactions. At LDS Hospital, which has one of the nation's few computer systems for linking drug reactions and patient records, doctors have reduced adverse events by 50%.

Dr. David Bates of the Brigham and Women's Hospital in Boston, who has studied hospital reporting of adverse drug reactions, said "even if the true incidence of [adverse drug reactions] is somewhat lower" than the Toronto researchers say ". . . it is still high, and much higher than generally recognized."

Wolfe, co-author of the book "Worst Pills, Best Pills," said the analysis underscored that the United States is "an over-medicated society." Patients being prescribed a drug should ask if it is absolutely necessary, he said, and should also be sure to tell doctors of any other drugs they may already be taking.

SELECT (IN CASE THAT CALL STILL HAPPENS)  
Medicare Select File

DATE

TO The Secretary  
Department of Health and Human Services

FROM The Administrator  
Health Care Financing Administration

SUBJECT Continuation of Medicare SELECT--DECISION

**ISSUE**

You are required to make a determination regarding the continuation of Medicare SELECT by the end of the calendar year. This determination must address the impact of the SELECT demonstration on Medigap policy premium costs, Medicare expenditures, and access to and quality of care received by beneficiaries. This memorandum outlines evaluation findings relating to these impacts and the issues involved in making the determination.

**BACKGROUND**

A Medicare SELECT policy is a type of Medicare supplemental (Medigap) insurance policy under which Medigap benefits may be reduced or eliminated if services are provided outside of a SELECT insurer's network. In exchange for reduced freedom of choice on Medigap benefits, enrollees can generally receive Medigap coverage through a Medicare SELECT policy for a reduced premium compared to a comparable standard Medicare supplemental policy.

Originally proposed by the Bush Administration, Medicare SELECT was established by the Omnibus Budget Reconciliation Act of 1990 as a demonstration project in 15 states for 3 years. After a short-term extension of the demonstration, P.L. 104-18 was enacted in 1995. This legislation expanded the Medicare SELECT program to all 50 states and required that the Secretary conduct a study and provide Congress with your determinations by December 31, 1997, as to whether: (1) savings in premium costs have not been realized under Medicare SELECT; (2) significant additional Medicare expenditures have resulted due to Medicare SELECT; and (3) access to and quality of care has been significantly diminished for SELECT enrollees.

If you make a positive finding in any of the three areas, Medicare SELECT would be terminated after June 30, 1998; otherwise it would become permanent.

**DISCUSSION**

## Page 2 - The Secretary

According to an evaluation of the demonstration and a more recent update of the evaluation, both conducted by Research Triangle Institute (RTI) and funded by the Health Care Financing Administration's (HCFA) Office of Research and Demonstrations (ORD), the following relevant findings relating to premium costs, Medicare expenditures, and access/quality issues emerged.

- o Premium Costs - Initial findings from RTI's evaluation indicated that SELECT policies were almost always cheaper than the same company's own standard Medigap policy for any age group but, due to the wide use of attained age rating by Medicare SELECT issuers, SELECT policies were generally more expensive for older beneficiaries when compared to community-rated policies offered by Prudential/AARP. However, in RTI's most recent comparison, as a result of dramatic increases in Prudential/AARP premiums, SELECT policies were generally cheaper than comparison community-rated policies.
- o Medicare Expenditures - RTI's initial finding indicated that Medicare costs generally increased as a result of Medicare SELECT. The inclusion of additional data, however, provided a much more mixed picture. According to the most recent analysis of the demonstration, Medicare program costs increased in five states, decreased in three states, and were not affected in three states. Because the states studied were not chosen to be representative of the nation, however, their experience is not necessarily indicative of a national program. Consequently, the effect of SELECT on Medicare program expenditures is ambiguous.
- o Consumer Access and Satisfaction - RTI's evaluation found that there were no health status differences between SELECT and nonSELECT beneficiaries. In addition, there were no differences in overall satisfaction levels between these populations. Finally, complaints about quality of care were negligible and were resolved to the beneficiaries' satisfaction in the majority of cases.

I remain concerned that many Medicare SELECT plans are not actively managing care but rather are achieving premium reductions solely through discounting arrangements with hospitals. As a result, the program, as currently structured, is not fulfilling the policy goals put forth when the program was first proposed, namely, creating incentives for the management of Medicare supplemental benefits and thereby reducing costs for beneficiaries and the Medicare program. However, any proposal to restructure the Medicare SELECT program, whether regulatory or legislative, would face stiff opposition in the Congress.

### RECOMMENDATION

I recommend you make negative determinations on all three questions posed by the statute, thus permitting the program to become permanent. Negative findings on premiums and access are straightforward. A negative finding on a significant increase in Medicare costs is

**Page 3 - The Secretary**

more difficult. However, the evidence is equivocal and appears to be dominated by the experience of only a few States from which it is difficult to generalize.

Given the current demands on HCFA resulting from BBA implementation efforts, restructuring the SELECT program is not an issue that I would recommend taking on at this time.

**DECISION**

Concur \_\_\_\_\_

Nonconcur \_\_\_\_\_

Date \_\_\_\_\_

Nancy-Ann Min DeParle

The Honorable Albert Gore, Jr  
President of the Senate  
Washington, D.C. 20510

Dear Mr. President:

I am respectfully submitting the determination required by P.L. 104-18, which amended section 4358(c) of the Omnibus Budget Reconciliation Act permitting Medicare SELECT supplemental policies to be offered in all States.

Based upon the original Report to Congress I submitted to you last May 1996, and upon additional studies to update that information, I have determined that the Medicare SELECT demonstration did not result in:

- o excessive premiums costs for persons enrolled in Medicare SELECT as compared to other supplemental policies;
- o diminished access and quality of care for SELECT enrollees; or
- o significant additional expenditures to the Medicare program.

The evidence concerning whether the SELECT demonstration resulted in "significant" additional expenditures to the Medicare program was mixed. According to an evaluation of the demonstration and a more recent update of the evaluation, both conducted by the Research Triangle Institute and funded by the Health Care Financing Administration, Medicare costs increased in five states, decreased in three states and were unchanged in three states. Because the demonstration states were not chosen to be representative of the nation their experience is not necessarily indicative of a national program. Nevertheless, there does not appear to be a basis to determine that the Medicare SELECT demonstration resulted in significant additional expenditures to the Medicare program.

I am also sending a copy of this letter to the Speaker of the House of Representatives.

Sincerely,

Donna E. Shalala

The Honorable Newt Gingrich  
Speaker of the House of Representatives  
Washington, D.C. 20515

Dear Mr. Speaker:

I am respectfully submitting the determination required by P.L. 104-18, which amended section 4358(c) of the Omnibus Budget Reconciliation Act permitting Medicare SELECT supplemental policies to be offered in all States.

Based upon the original Report to Congress I submitted to you last May 1996, and upon additional studies to update that information, I have determined that the Medicare SELECT demonstration did not result in:

- o excessive premiums costs for persons enrolled in Medicare SELECT as compared to other supplemental policies;
- o diminished access and quality of care for SELECT enrollees; or
- o significant additional expenditures to the Medicare program.

The evidence concerning whether the SELECT demonstration resulted in "significant" additional expenditures to the Medicare program was mixed. According to an evaluation of the demonstration and a more recent update of the evaluation, both conducted by the Research Triangle Institute and funded by the Health Care Financing Administration, Medicare costs increased in five states, decreased in three states and were unchanged in three states. Because the demonstration states were not representative of the nation, the results are not necessarily indicative of a national program. Nevertheless, there does not appear to be a basis to determine that the Medicare SELECT demonstration resulted in significant additional expenditures to the Medicare program.

I am also sending a copy of this letter to the President of the Senate.

Sincerely,

Donna E. Shalala

Exhibit 3.1

**DRAFT**

Estimated SELECT Cost Impacts  
 Using the Fixed Effects Model

State	Coefficient	Estimated	Coefficient	Estimated
	Estimates	SELECT	Estimates	SELECT
	16 Quarters Data 1992-1994		15 Quarters Data 1992-1994	
Alabama	0.152 ** (0.023)	16.4%	0.146 ** (.025)	15.7%
Arizona	0.140 ** (0.053)	15.0	0.152 * (.058)	16.4
California	-0.086 ** (0.011)	-8.2	-0.085 ** (.012)	-8.2
Florida	-0.029 # (0.016)	-2.9	-0.044 * (.018)	-4.3
Indiana	0.378 ** (0.091)	45.9	0.373 ** (.100)	45.2
Kentucky	0.008 NS (0.024)	0.8	0.012 NS (.026)	1.2
Minnesota	0.009 NS (0.037)	0.9	0.005 NS (.040)	0.5
Missouri	-0.109 ** (0.030)	-10.3	-0.117 ** (.033)	-11
Ohio	-0.209 * (0.090)	-18.9	-0.190 # (.100)	-17.3
Texas	0.076 ** (0.023)	7.9	0.080 ** (.025)	8.3
Wisconsin	0.137 ** (0.050)	14.7	0.149 * (.056)	16.1

NOTES: 5.6 5.7

Standard errors in parentheses.

# -- significant at the .10 level

\* -- significant at .05 level

\*\* -- significant at .01 level

NS -- not significant.

File Labor WWS



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

October 7, 1997

THE DIRECTOR

The Honorable Bob Livingston  
Chairman  
Committee on Appropriations  
U.S. House of Representatives  
Washington, D.C. 20503

Dear Mr. Chairman:

The purpose of this letter is to provide the Administration's views on H.R. 2264, the Departments of Labor, Health and Human Services, Education, and Related Agencies Appropriations Bill, FY 1998, as passed by the House and by the Senate. As the conferees develop a final version of the bill, your consideration of the Administration's views would be appreciated.

Both the House and Senate versions of the bill provide requested funding for many of the Administration's priorities. The Administration is pleased that both the House and the Senate Committees limited the number of appropriations riders, consistent with the terms of the Bipartisan Budget Agreement (BBA). The conferees are urged to continue this practice. As discussed below, the Administration will seek restoration of certain of the reductions to the President's request. We recognize that it will not be possible in all cases to attain the Administration's full request and will work with the conferees toward achieving acceptable funding levels.

The House and Senate have included \$1 billion and \$2 billion more, respectively, than the President has requested for dozens of authorities in the Department of Education, while cutting the President's request in a broad array of important programs. We urge the conferees to reduce funding for lower priority programs, or for programs that would be adequately funded at the requested level, and to redirect funding to programs of higher priority, particularly those specified in the BBA, as noted below.

Unfortunately, a number of controversial amendments were passed on the House and/or Senate floor, such as an amendment that would create education block grants from Administration priorities such as Goals 2000 and Title I (Education for the Disadvantaged), amendments to prohibit or prevent the use of funds in the Act for supervising the Teamsters reelection, and an amendment to prohibit the use of funds in the Act for the President's National Testing initiative. In addition, certain provisions of the House and Senate bills, such as the lack of FY 1998 funding for the President's America Reads Challenge and insufficient funding for Pell grants, are contrary to the BBA. If such policies were adopted, particularly in light of other concerns raised in this letter, the President's senior advisers would recommend that the President veto the bill.

## Department of Education

The Administration appreciates efforts of the Congress to provide substantial new funding for education activities. Unfortunately, the Senate-passed education block grant would undermine all of these gains. The Senate's education block grant provisions would effectively terminate most elementary and secondary education programs, including Title I, Goals 2000, School-to-Work, Charter Schools, Safe and Drug-Free Schools and Communities, and Bilingual and Immigrant Education. The block grant proposal would not ensure that funds are directed to educational problems of greatest concern, and would provide virtually no targeting toward the neediest school districts and students. On September 16th, the President made it clear that he will veto any bill that contains such block grant provisions.

Both the House and Senate have failed to provide the \$260 million necessary for the President's America Reads Challenge in the Department of Education. Both the House and the Senate have provided advance appropriations for America Reads to the Department of Education for FY 1999, pending new authorization, which would produce a full year's delay in getting needed reading assistance to millions of children. The House has provided only \$10 million of the \$42 million requested for America Reads in the portion of the Corporation for National and Community Service budget funded by this bill; the Senate has provided only \$16 million for the same program. The BBA specifically calls for funding a child literacy program consistent "with the goals and concepts of the President's America Reads program" at the levels proposed in the President's FY 1998 Budget. America Reads is one of the Administration's highest funding priorities. The Administration believes that full FY 1998 funding for this initiative should be restored to both the Department of Education and the Corporation for National and Community Service activities funded in this bill and the VA/HUD Appropriations bill.

The Administration is working closely with the authorizing committees to develop legislation effective for FY 1998. There is ample time to enact legislation, as needed, by April 1st for a program that would begin on July 1st, in time for summer activities and the 1998-1999 school year. The Administration also strongly urges the Congress to make the funds available on April 1, 1998 under existing authorities, in the event that final action on the authorization bill is not completed in a timely manner.

The Administration is strongly opposed to House provisions that would bring a halt to the President's National Testing initiative. In his September 20th radio address, the President stated that he will veto any legislation that denies our children high national standards through the prohibition of the President's national testing initiative. The national tests proposed by the President are critical because they will, for the first time, provide students, parents, and teachers the opportunity to measure how well students are performing in comparison to national standards and international benchmarks. As a result, national tests will help hold schools accountable to parents and communities for the performance of all students. The Department of Education has the authority to develop these tests under the Fund for the Improvement of Education (FIE). We

support requirements that the Department of Education contract with the National Academy of Science to conduct a study and report on the testing initiative. In addition, we support the Senate provision that places overall responsibility for the testing initiative with the independent, bipartisan National Assessment Governing Board. The Administration urges the conferees to provide adequate funding for the FIE program that finances this testing initiative, so that sufficient funding will also be available for continuation grants, new awards, and congressional directives.

The BBA specifies funding at the levels proposed in the President's request for Pell grants, which supports both a \$3,000 maximum award and expanded eligibility for independent students. While the FY 1998 maximum award level is set at \$3,000, both the House and Senate have cut the Pell request significantly. Further, neither the House nor the Senate authorize the Administration's proposed independent student policy. This authorization is no different from the Committee's annual procedure of authorizing the maximum Pell grant award. We urge the conferees to fully fund Pell grants and to authorize the independent student change

We are concerned about three Senate amendments that could transfer almost \$100 million from unobligated balances in the Pell grant program to other Department of Education programs. These funds are needed to fund the \$3,000 maximum award and the President's proposal to expand eligibility for low-income independent students. Therefore, the Administration opposes these amendments.

The Administration strongly opposes a House provision that would prohibit the investigation of violations by, and imposition of penalties upon, States that do not comply with the statutory requirement of the Individuals with Disabilities Education Act (IDEA) Amendments of 1997 to serve eligible individuals with disabilities age 18 or older in adult State prisons. The 1997 Amendments reduced State burdens by reducing the number of eligible individuals and by limiting the types of services that must be provided. Since prison education programs have a positive effect on reducing recidivism and on post-release employment success, the requirement to serve this population should be properly enforced.

The Administration urges the conferees to fund the Office for Civil Rights (OCR) at the President's request of \$61.5 million, \$6 million above the House bill and \$4 million above the Senate bill. OCR plays a vital role in ensuring equal access to education for all students through enforcement of civil rights laws and regulations. Promoting harmonious race relations is an essential part of the President's Initiative on Race. Because OCR enforcement efforts are a fundamental bridge to achieving this goal, OCR must be funded accordingly.

The Administration urges the conferees to fund the Program Administration account at the Senate level of \$340 million. Congress provided the Education Department \$3.6 billion in new program spending in FY 1997, and both the House and Senate bills provide a further increase of nearly \$3 billion, from \$26.3 billion to approximately \$29 billion, for FY 1998. The Department must have sufficient staff resources to properly manage these new funds and programs and to ensure the highest possible level of program performance.

The House has provided only \$387 million for Goals 2000, \$233 million below the request, while the entire Education Reform account is \$223 million below the request. This violates the BBA, which stipulates that the Education Reform account be funded at the President's request. The Senate has provided \$530 million for Goals 2000, \$90 million below the request. The Administration urges the conferees to fund Goals 2000 at the President's request to support education reform and challenging academic standards in all 50 States.

The Administration urges the conferees to fund Safe and Drug-Free Schools and Communities (SDFSC) at the President's request of \$620 million, \$64 million above the level recommended by the House and Senate. SDFSC, the largest Federal school-based drug and violence prevention program, serves more than 40 million students in over 97 percent of the Nation's school districts and is an essential component of a comprehensive effort to reduce teen drug use.

The Administration urges the conferees to fund the Adult Education State Grant program at the President's request of \$382 million, \$42 million above both the House and Senate funding levels. The President's request would meet increased demand for literacy training created by new welfare reform and immigration legislation. At the President's requested funding level, this program would help over 4.2 million adult learners complete high school, start on the path to postsecondary education and better jobs, and become more effective parents. At the House or Senate funding level, about 107,000 adult learners would be denied services.

The House has included language amending the definition of an eligible lender in the Federal Family Education Loan Program. The language would provide a broad exception to the current limitation on how much of a bank's portfolio can comprise guaranteed student loans, including loans that a bank holds as a trustee for a third party. It would also permit finance companies, the financial solvency of which, --unlike banks-- is not regulated by a public entity, to be eligible lenders. These provisions would increase the Federal exposure to financial risk and weaken parts of the statute enacted specifically in response to prior abuses. The provision should not be included in the conference bill.

The Administration urges the conferees to fund Title I, Education for the Disadvantaged Grants to Local Educational Agencies at not less than \$7.395 billion, exclusive of "comprehensive school reform." This level would provide a minimum increase over the 1997 level of \$7.295 billion. The most appropriate use of the \$100 million above FY 1997 would be for Targeted Grants. This amount would provide additional education services to help over 130,000 students in our poorest communities master the basics and reach challenging academic standards.

The Administration is concerned about the Senate's \$52 million funding level for the Statistics program, \$14 million less than the President's request. With this funding level, the Department of Education would not be able to move forward on a number of studies, including those providing key data on early childhood, student achievement, teachers, and adult literacy. The Administration urges the conferees to provide the requested funding level.

The Administration supports the Senate-passed language assigning to the National Assessment Governing Board the responsibility for development of voluntary national tests. In order to carry out these responsibilities, we ask that the Conference bill include an additional \$600,000 for the Board for this purpose.

The Administration supports the House level of \$50 million for After School Learning Centers (21st Century Community Learning Centers), which is the same as the President's Budget request. These grants will help communities and schools provide safe environments for learning during after-school hours.

We also urge the conferees to fund other high priority Education programs at the President's requested level, including Eisenhower Professional Development, and Charter Schools.

#### Department of Health and Human Services

The Administration is deeply concerned that both the House and Senate have failed to provide \$21 million for the Administration's new Adoption Initiative. The goal of this program is to double the number of children adopted or permanently placed outside of child welfare systems by FY 2002. The additional investment is small compared to the potential rewards of placing children in supportive and loving homes. The Administration strongly urges the conferees to fully fund this urgently-needed program at the President's requested level.

Both the House and the Senate have rescinded \$21 million in mandatory research funds. The President's request assumes \$18 million in discretionary and \$21 million in mandatory welfare research funds, for a total of \$39 million. In order to gauge the effects of welfare reform, research is needed now more than ever. The Administration strongly urges the conferees to drop the rescission and to fund this critical welfare research at the President's requested level.

\* The Administration strongly opposes the House-passed amendment that takes away the authority of the Secretary of Health and Human Services to certify that Federal funds may be used for needle-exchange programs. Under current law, the Secretary may authorize such funding only after a formal determination that a needle-exchange program would both prevent the spread of disease and not encourage the use of illegal drugs. The Department of Health and Human Services is currently engaged in research to answer these questions. It is premature to foreclose possible public health benefits by legislative mandate before the scientific evidence has even been considered.

The Administration urges the conferees to fund the Health Care Financing Administration (HCFA) program management account at the requested level of \$1,775 million. The House has funded HCFA program management at \$1,679 million, \$96 million below the President's request, and the Senate has provided \$1,719 million, \$56 million below the President's request. The President's request level is critical to enabling HCFA to mount an aggressive initiative against

Medicare fraud, waste and abuse. The President's request would also ensure that HCFA is able to comply with Year 2000 systems requirements and perform the CFO audit. The President's request for the Medicare Transaction System would fund consolidation of HCFA's current contractor systems, which needs to occur prior to, and independent of, final resolution of any Medicare modernization issues. The House has not provided any funding for contractor consolidation, and the Senate has provided \$35 million less than the request for this program. HCFA also faces implementation challenges as a result of the BBA. The Administration urges the conferees to appropriate the \$200 million in managed care user fees authorized in the BBA. We are committed to working with the Congress to determine the appropriate level of additional funding for BBA implementation.

The Administration prefers the Senate funding level of \$208 million for the Title X Family Planning program. This level will serve an additional 80,000 clients in FY 1998 and will enable the Family Planning program to continue its priorities, including outreach to women not likely to seek services and emphasis on comprehensiveness of reproductive health services. The Administration also supports efforts to encourage minors to discuss their health care needs with their families.

Both the House and Senate have included a provision that prohibits the purchase of managed care coverage that includes abortion. The President believes that abortion should be safe, legal, and rare. However, the provision would not only maintain, but would further limit the range of conditions under which a woman's health would permit access to abortion. Furthermore, it would require a physician to make a legal determination that these conditions have been met. The Administration opposes this attempt to constrain further the availability of abortion services. Nonetheless, it is helpful that the provision is clear that limitations on the use of Federal funds to provide abortion services under managed care plans do not affect in any way the ability of States to provide such coverage using their own funds, nor the ability of managed care providers to participate in Federally-funded programs while also offering other coverage paid for by State or private funds.

The Administration is pleased that both the House and Senate have provided increased funding for many of the Ryan White AIDS CARE Act programs, including the AIDS Drug Assistance Program (ADAP). The Administration urges the conferees to provide as large an increase as possible for all Ryan White AIDS CARE Act programs, including ADAP, consistent with the President's other priorities in the bill. We also urge the conferees to allocate funds in a way that maximizes the provision of primary care.

The Administration is concerned that neither the House nor the Senate has provided a specific amount for AIDS research through a single appropriation for the National Institutes of Health's (NIH's) Office of AIDS Research, as requested in the President's budget. The single appropriation would help NIH plan and target NIH research funds effectively, minimizing duplication and inefficiencies across the 21 institutes and centers that carry out HIV/AIDS research.

The Administration is concerned that the House has funded HIV prevention activities at the Centers for Disease Control and Prevention at \$12 million below the President's request. The FY 1998 Budget proposes a \$17 million increase for this activity to target HIV prevention for intravenous drug users at risk of developing the virus. The conferees are encouraged to fully fund the President's request of \$634 million.

The Administration strongly endorses an amendment offered in both the House and Senate that repeals the \$50 billion tobacco settlement credit contained in the Balanced Budget Act of 1997. The amendment, sponsored by Senators Durbin and Collins and Representatives Lowey and Roukema, garnered strong bipartisan support and should be adopted in conference.

### Department of Labor

The BBA specifies funding at the levels proposed in the President's budget for Training and Employment Services, including Job Corps. The FY 1998 request included \$250 million for the Youth Opportunity Area proposal. The House bill provides \$100 million in FY 1999 for this program, while the Senate bill provides \$250 million in FY 1999, contingent upon enactment of authorizing legislation by April 1, 1998. We urge the conferees to adopt the Senate approach, provided that the date for enactment of authorizing legislation is changed to July 1, 1998. The House and Senate bills reduce requested funding for the adult training grant program by \$21 and \$109 million, respectively. We urge the conferees to restore funding for this program.

The Administration appreciates the House's allocation of \$183 million to help finance the year 2000 conversion of State Unemployment Insurance (UI) systems and the Senate's allocation of \$150 million for the same purpose. However, both amounts are below the level needed to provide adequate funding to meet the year 2000 costs. The conferees are urged to provide the \$200 million request for year 2000 conversion costs. The House and the Senate have failed to provide \$89 million for spending on UI "integrity" initiatives (e.g., increased eligibility reviews, tax audits). The spending is explicitly assumed in the Balanced Budget Act of 1997, and would, over five years, achieve \$763 million in mandatory savings assumed in the Act.

On July 17, 1997, the President sent to Congress a budget amendment for \$6.2 million for the Labor Department to administer the \$3 billion Welfare-to-Work program. The House-passed bill includes no funds for Welfare-to-Work administration, while the Senate-passed bill provides \$4 million. We urge the conferees to include \$6.2 million to administer the Welfare-to-Work program, which was agreed to by Congress in the Balanced Budget Act of 1997.

The Administration urges the Conferees to provide the President's request of \$1.064 billion for the Job Training Partnership Act. These resources are essential for locally-based strategies to help disadvantaged adults obtain and hold good jobs with career potential. Furthermore, data show that this adult training program has a positive net impact on earnings.

The Senate has provided \$990 million, and the House \$981 million, for the Department of Labor workplace protection programs. Both levels are about half of the President's proposed increase. Without the requested level, the Department will not be able to carry out a balanced program of targeted enforcement with expanded partnerships and compliance assistance in the regulated community, or streamline its operations to provide assistance to small businesses in complying with various workplace laws and related executive orders, such as the systems and technical assistance improvements requested for the Office of Federal Contract Compliance. The conferees are urged to provide the requested level for the Bureau of Labor Statistics to ensure the continued accuracy and reliability of all the Bureau's programs. Funding for the independent National Labor Relations Board has been frozen, a cut of \$11 million below the request. The Administration urges the conferees to enact the Administration's request for these programs.

#### Social Security Administration

The House has provided \$245 million for additional Continuing Disability Review (CDR) funding and SSI reforms implementation, \$45 million less than the President's request. The Balanced Budget Act of 1997 contains a provision that provides authority for a \$290 million upward cap adjustment (\$45 million more than prior law) to the non-defense discretionary spending caps for funding provided for additional CDRs. This is consistent with Senate action and the President's request. Failure to provide the additional funds would mean that some 15 percent fewer individuals would have their status reviewed in FY 1998, potentially costing hundreds of millions of dollars in benefits to individuals who would have been found no longer eligible. We urge the conferees to provide the additional \$45 million, consistent with Senate action.

The Senate has reduced funding for the Office of the Inspector General (IG) by \$7 million from the President's request of \$44 million. The reduction to the IG request would hamper the IG's ability to perform audits and investigations needed to prevent fraud, waste, and abuse and to assure program integrity. The Administration urges the conferees to restore funding to the maximum extent possible in this key area.

The Senate has reduced funding for research and demonstration projects by \$7.4 million from the President's request of \$16.7 million. The reduction in research and demonstration funding would reduce SSA's ability to understand the reasons for growth in the disability programs and implement initiatives intended to improve SSA's record in returning disabled beneficiaries to work. At the same time, the Senate specified that not less than \$2.25 million shall be available to establish a demonstration project to assist persons with disabilities due to the loss of a limb to return to work. The Administration urges the conferees to restore funding to the maximum extent possible in this key area, but to do so without identifying specific projects and funding levels. The Administration believes that SSA staff are in the best position to establish a

research and demonstration projects agenda that gives full consideration to assisting all persons with disabilities, without special regard to the specific impairments that are the cause of the disabilities.

Additional Administration concerns are contained in the enclosure.

Sincerely,

A handwritten signature in black ink, appearing to read 'Franklin D. Raines', written over a horizontal line.

Franklin D. Raines  
Director

Enclosure

Identical Letter Sent to The Honorable Bob Livingston,  
The Honorable David R. Obey, and The Honorable John E. Porter,  
The Honorable Ted Stevens, The Honorable Robert C. Byrd,  
The Honorable Arlen Specter, and The Honorable Tom Harkin

**ADDITIONAL CONCERNS**  
**H.R. 2264 -- DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES,  
EDUCATION, AND RELATED AGENCIES APPROPRIATIONS BILL, FY 1998**

---

The Administration looks forward to working with the conferees to address the following concerns.

All Agencies Covered by the Bill

- Across-the-Board Administrative Cut. The Senate bill calls for a \$76 million administrative cut, spread across all agencies covered by the bill. Such a cut would have a serious impact on the operation of important programs throughout these agencies.
- Operating Plans. The House Committee report calls for all agencies covered by the bill to provide to the Committee "operating plans" for appropriations. The administration is prepared to work with the conferees to discuss the purpose of this request and determine how to address it.

Department of Health and Human Services

- Community Schools: Violent Crime Reduction. While the Administration supports the House and Senate funding of Violence Against Women Act programs, neither the House nor the Senate has provided funding for the Community Schools program within the Violent Crime Reduction Programs account. The House has provided no funding for Developmental Disabilities Special Projects activities. We urge the conferees to restore funding for these programs.
- Medicare Survey and Certification User Fees. The President's budget proposes total funding of \$158 million for the surveys and certification program, \$148 million in budget authority and \$10 million in user fees. The House has provided \$148 million in budget authority, \$10 million below the President's request. The Senate has provided \$158 million in budget authority but has not enacted the \$10 million in user fees. The Administration believes that health care providers who derive considerable benefit from the Medicare program should fund the cost of conducting initial surveys required for entry into the program. We urge the conferees to enact the Administration's survey and certification user fee proposal and to fully fund the President's request for this activity.

- Aging Services Programs. Within the Administration on Aging, the House and the Senate have provided no funding for the Alzheimer's Initiative. This important program would provide critical resources for the elderly.
- Head Start. The Administration is concerned that the Senate, while providing the full request for Head Start, would make the funds available in a manner that is inconsistent with the Head Start Act. It appears that the Senate intends to double the amount of funding for the Early Head Start program out of the overall increase provided for Head Start over the FY 1997 appropriation. We urge the conferees to provide these funds in accordance with the bipartisan authorizing statute in order to support the President's goal of serving one million children by FY 2002.
- Hansen's Disease. The House bill includes language that would transfer HHS' Hansen Disease treatment facility at Carville, Louisiana, to the State of Louisiana. The Administration supports this transfer, but objects to how the language transfers property to the State of Louisiana and how it handles personnel issues. We believe that the General Services Administration, the Federal Government's property asset manager, should handle the transfer as authorized in the Federal Property and Administrative Services Act of 1949. In addition, the Administration strongly opposes those provisions pertaining to the computation of employee annuities and disability retirement benefits. The Administration urges the conferees to delete these provisions. There are a variety of ways to ensure the well-being of and retirement benefits for these employees, and the Administration wants to work with the conferees to draft language that is consistent with current law.
- Additional Health Concerns. The Administration is concerned that: the Senate has not provided the full request for the Agency for Health Care Policy and Research; the House has not provided the full request for the Office of Emergency Preparedness; neither the House nor the Senate have provided the full request for the HRSA Organ Transplantation program. To the extent possible, we urge that the requested funding levels be provided for these additional health concerns.

Neither the House nor Senate bills fully-fund the request for HHS's Office for Civil Rights. The Administration urges the conferees to provide the \$20.5 million requested in the Budget, which would allow OCR to strengthen its compliance and enforcement activities related to adoption, foster care, managed care, and welfare reform.

#### Social Security Administration

- Official Time. Language in the House bill would bar the expenditure of trust fund money for employees who conduct union activities on official time. Paying for

such expenses is consistent with both Federal law and SSA's collective bargaining agreements. Restricting certain funding sources from paying for this activity would unfairly shift costs to the general fund and not reduce the amount of Federal funds expended on this legitimate activity. This limitation should be stricken from the bill.

- SSI User Fee. Both the House and the Senate have included language to authorize increases to the fee States pay SSA for administering State payments that are supplemental to SSI benefits, and provide for such funds to be available, subject to appropriations action, upon collection for SSA administrative expenses. This provision is identical to language in the Balanced Budget Act of 1997, which also includes a provision directing that these additional fees shall be credited as a discretionary offset to discretionary spending to the extent that the amounts are made available for expenditure in appropriations acts. The Administration commends the actions of both the House and the Senate and urges the conferees to delete the authorization language that is now duplicative of the Balanced Budget Act.

#### Railroad Retirement Board

- Inspector General. The House has included language prohibiting the use of any funds other than those in the Inspector General (IG) account for the provision of supplies, space, and services by other offices of the Railroad Retirement Board (RRB) to the IG. The language should be stricken from the bill. The Administration believes that the current means of financing centralized services provided to the IG is consistent with the provisions of the IG Act and that the RRB should not be singled out in this respect. The Administration also notes that, once the amount specified in report language related to these support services is factored into the total for the IG, the Committee would effectively reduce the IG budget by 17 percent from the FY 1997 enacted level. The President's request is for level funding; the reduction in the House bill is excessive.
- Inspector General. The House has included language prohibiting the RRB IG from using funds for any audit, investigation, or review of the Medicare program. RRB has statutory authority to administer a separate contract for RRB, Part B Medicare claims. The Administration believes that this language should be dropped. As long as RRB has authority to negotiate and administer a separate Medicare contract, the RRB IG ought not be prohibited from using funds to review, audit, or investigate activity related to that contract.

### Armed Forces Retirement Home

- The House bill would reduce the \$25 million capital program by one-third. The Senate bill would reduce the capital program by three-fifths. This program includes the renovation of the Sheridan dormitory in Washington and design of the medical facility in Mississippi. The Administration strongly supports full funding of these renovations, which are badly needed to serve these elderly veterans.

## MEDICARE IN THE BUDGET: Highlights

### MEDICARE SAVINGS

- **\$115 billion over 5 years**, nearly \$400 billion over 10 years. This includes:
  - \$40 billion in hospital savings
  - \$22 billion in managed care savings
  - \$16 billion in home health savings
  - \$10 billion in skilled nursing facility savings
  - \$15 billion in beneficiary contributions, and
  - \$20 billion in physician, other provider, and fraud and abuse savings
  - + \$7 billion in spending on preventive benefits & other beneficiary provisions
- **Extends the life of the Part A Trust Fund by a decade.**
- **Slows Medicare spending growth per beneficiary** to a rate equal to that of projected private spending per person over the next 5 years.
- **End Medicare's growth as a percent of GDP in the next five years.** Medicare spending remains close to today's 2.8 percent of GDP.

### MANAGED CARE REFORMS

#### Improved payment methodology

- **Ends overpayment to managed care plans.** The well-documented, flawed payment rates will be corrected through slower growth rates for the next 5 years.
- **Reduces bias against rural managed care.** Managed care rates will phase in a 50 / 50 blend of local and national rates, with a "floor" for the lowest rate counties and a minimum growth rate for all.

#### New choices

- **New plan options for beneficiaries.** Beneficiaries' managed care options will be expanded to include preferred provider organizations, provider-sponsored organizations, private fee-for-service plans with consumer protections, and, on a demonstration basis, medical savings accounts.
- **Consumer information to encourage beneficiaries to participate.** Beneficiaries will be educated about their plan options through a series of reforms, including standardized information, enrollment periods, and nation education and publicity campaigns.

## **FEE-FOR-SERVICE PAYMENT REFORMS**

- **Prospective payment systems for the fastest growing services:**
  - Home Health
  - Skilled Nursing Facilities
  - Hospital Outpatient Departments
  - Rehabilitation Hospitals
- **Prudent purchasing.** The ability to efficiently manage the program will be improved by new competitive pricing demonstrations and allowing Medicare to change payments by up to 15 percent per year to bringing line with inherent reasonableness.

## **NEW BENEFITS & INCREASED BENEFICIARY CONTRIBUTIONS**

- **New preventive benefits that should save Medicare money in the long-run:**
  - Mammography screening
  - Screening Pap smears & pelvic exams
  - Prostate cancer screening
  - Colorectal cancer screening
  - Diabetes self-management and test strips
  - Bone mass measurement
- **Fair beneficiary contribution.** The home health reallocation will be included in the Part B 25 percent premium. This amount is phased in, and over the 10 years will raise about \$40 billion.

## **FRAUD AND ABUSE INITIATIVES**

- **Builds upon Operation Restore Trust fraud-combating efforts through:**
  - Penalties for services offered by a provider who has been excluded by Medicare or Medicaid
  - Penalizes hospitals who contract with providers excluded by Medicare or Medicaid
  - Civil monetary penalties for illegal referrals
  - Requirement that providers give proper identification
  - Tightened eligibility for home health services
  - Elimination of financial incentives to start new home health agencies.
  - Development of guidelines for the use of home health
  - Payment based on location where home health is furnished.

## MEDICARE: CBO SCORING

(FY 1998-2002, in billions of dollars)

	1998-2002
<b>MANAGED CARE</b>	<b>-22.1</b>
<b>HOSPITALS</b>	
Reduce Update for PPS Hospitals	-17.1
PPS Capital	-5.3
Reduce PPS-Exempt Hospitals	-3.5
PPS-Exempt Capital	-0.5
Hospital Depreciation	-0.2
Bad Debt	-0.5
Puerto Rico Standardized Amount	0.0
Grandfathers for LTC Hospitals	0.1
Retroactive Designation of Cancer Hospitals	0.0
Lower Indirect Medical Education	-5.6
Graduate Medical Education Pass-Through Payments	-0.9
Eliminates IME / DSH Adjustment to Outliers	-2.2
DSH Reductions	-0.6
Recalibrate DRGs for Transfers	-1.3
Rural Referral Centers	0.0
Miscellaneous Rural	0.3
Medicare Dependent Small Rural Hospital Extension	0.2
Payment of Med. Education [& DSH] removed from AAPCCs	4.0
PPS for Rehab Hospitals	0.3
Outpatient Prospective Payment System	-7.2
<b>SUBTOTAL</b>	<b>-40.0</b>
<b>HOME HEALTH</b>	
Home Health Policy	-16.2
<b>PHYSICIANS AND OTHER PRACTITIONERS</b>	
Physician Payment System	-5.3
Direct Payments to PAs and NPs	0.5
Reduce Payments to Select Pharmaceuticals	-0.4
Eliminate X-Ray Requirement for Chiropractors	0.3
<b>SUBTOTAL</b>	<b>-4.9</b>
<b>SKILLED NURSING FACILITIES</b>	
Skilled Nursing Facility Cost Limits & Per-Diem PPS	-9.5

## MEDICARE: CBO SCORING

(FY 1998-2002, in billions of dollars)

	<u>1998-2002</u>
<b>FRAUD AND ABUSE</b>	
Medicare Secondary Payer Extension	-7.5
Medicare Secondary Payer Authority and Reporting	-0.4
Advisory Opinions Regarding Self-Referral	0.2
Misc. Fraud and Abuse Provisions	-0.3
<b>SUBTOTAL</b>	<b>-8.0</b>
<b>OTHER PROVIDERS</b>	
Hospice	-0.2
DME, P&O, Lab Competitive Bids and Rate Reduction	-0.8
Lab Updates	-1.9
ASC Update	-0.3
Oxygen	-2.1
Outpatient Therapy Providers	-1.7
Ambulance	0.0
Coverage of Oral Anti-emetics	0.0
Veterans Administration Subvention	0.1
PACE Program	0.0
Social HMO Demonstration	0.2
<b>SUBTOTAL</b>	<b>-6.7</b>
<b>PREMIUMS &amp; BENEFICIARY CONTRIBUTIONS</b>	
Maintain Part B Premium at 25%	-14.9
Part A Premium Interaction	1.1
State / Local Buy-In	0.6
<b>SUBTOTAL</b>	<b>-13.2</b>
<b>BENEFICIARY INVESTMENTS</b>	
Colorectal Cancer Screening	0.6
Prostate Screening	0.6
Diabetes Self-Management Training and Supplies	2.1
Annual Mammography Screening	0.2
Screening Pap Smears and Pelvic Exams	0.1
Bone Mass Measurement	0.3
Reduce Part B Late Enrollment Penalty	0.1
Payment to states for coverage of premium interaction	1.3
<b>SUBTOTAL</b>	<b>5.3</b>
<b>TOTAL MEDICARE SAVINGS</b>	<b>-115.3</b>

**CBO MEDICARE BASELINE & BALANCED BUDGET ACT**

*(By fiscal year, in billions of dollars)*

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1998-2002		1998-2007	
												Total	Growth	Total	Growth
<b>JANUARY 1997 BASELINE</b>															
Total (Gross) Spending (1)	208.8	227.0	248.2	273.0	285.6	313.7	339.4	368.2	409.8	437.6	464.1	1,347.5	8.5%	3,366.6	8.3%
Spending per capita (2)	5,480	5,881	6,364	6,911	7,140	7,746	8,258	8,851	9,711	10,200	10,620		7.2%		6.8%
Federal (Net) Spending	188.6	205.5	225.7	249.5	261.1	288.1	312.6	340.3	380.5	407.0	431.8	1,229.9	8.8%	3,102.1	8.6%
Spending per capita (2)	4,950	5,324	5,787	6,316	6,528	7,114	7,606	8,180	9,017	9,487	9,881		7.5%		7.2%
<b>BALANCED BUDGET</b>															
Total (Gross) Spending	208.8	220.3	233.1	246.0	269.3	278.7	307.7	333.9	370.9	384.8	429.1	1,247.4	5.9%	3,073.8	7.5%
Spending per capita (2)	5,480	5,707	5,977	6,228	6,733	6,881	7,487	8,026	8,789	8,970	9,819		4.7%		6.0%
Federal (Net) Spending	188.6	198.8	209.4	219.8	240.3	246.5	271.6	293.7	326.1	335.5	374.9	1,114.8	5.5%	2,716.6	7.1%
Spending per capita (2)	4,950	5,150	5,369	5,565	6,008	6,086	6,608	7,060	7,727	7,821	8,579		4.2%		5.7%
Total Savings	0.0	-6.7	-16.3	-29.7	-20.8	-41.6	-41.0	-46.6	-54.4	-71.5	-56.9	-115.1		-385.5	
Premium Revenue	0.0	0	-1.2	-2.7	-4.5	-6.6	-9.3	-12.3	-15.5	-18.7	-21.9	-15.0		-92.7	

(1) Mandatory spending, including PROs.

(2) Spending divided by CBO's Part A enrollment

SAVINGS OVER 6 YEARS: -156.1  
SAVINGS OVER 7 YEARS: -202.7

Gross Domestic Product (CY)	7,916	8,277	8,678	9,097	9,532	9,984	10,453	10,938	11,443	11,969	12,518
(Fiscal Year)	7,829	8,187	8,578	8,992	9,423	9,871	10,336	10,817	11,317	11,838	12,379
Medicare as a Share of GDP											
Current Law	2.7%	2.8%	2.9%	3.0%	3.0%	3.2%	3.3%	3.4%	3.6%	3.7%	3.7%
Proposed Law	2.7%	2.7%	2.7%	2.7%	2.9%	2.8%	3.0%	3.1%	3.3%	3.3%	3.5%

## MEDICARE IN THE BUDGET: Highlights

### Managed Care Reforms: Improved payment methodology and more choices

- **Ends overpayment to managed care plans.** The well-documented, flawed payment rates will be corrected through slower growth rates for the next 5 years.
- **Reduces bias against rural managed care.** Managed care rates will phase in a 50 / 50 blend of local and national rates, with a "floor" for the lowest rate counties and a minimum growth rate for all.
- **New plan options for beneficiaries.** Beneficiaries' managed care options will be expanded to include preferred provider organizations, provider-sponsored organizations, private fee-for-service plans, and, on a demonstration basis, medical savings accounts.
- **Consumer information to encourage beneficiaries to participate.** Beneficiaries will be educated about their plan options through a series of reforms, including standardized information, enrollment periods, and nation education and publicity campaigns.

### Fee-for-Service Reforms

- **Prospective payment systems for the fastest growing services:**
  - Home Health
  - Skilled Nursing Facilities
  - Hospital Outpatient Departments
  - Rehabilitation Hospitals
- **Prudent purchasing.** The ability to efficiently manage the program will be improved by new competitive pricing demonstrations and allowing Medicare to change payments by up to 15 percent per year to bringing line with inherent reasonableness.

### New Benefits and Increased Beneficiary Contributions

- **New preventive benefits that should save Medicare money in the long-run:**
  - Mammography screening
  - Screening Pap smears & pelvic exams
  - Prostate cancer screening
  - Colorectal cancer screening
  - Diabetes self-management and test strips
  - Bone mass measurement

- **Fair beneficiary contribution.** The home health reallocation will be included in the Part B 25 percent premium. This amount is phased in, and, over the 10 years, will raise about \$40 billion.

### **Fraud and Abuse Initiatives**

- **Builds upon Operation Restore Trust** through:
  - Penalties for services offered by a provider who has been excluded by Medicare or Medicaid
  - Penalizes hospitals who contract with providers excluded by Medicare or Medicaid
  - Civil monetary penalties for illegal referrals
  - Requirement that providers give proper identification
  - Tightened eligibility for home health services
  - Elimination of financial incentives to start new home health agencies.
  - Development of guidelines for the use of home health
  - Payment based on location where home health is furnished.

## MEDICARE: CBO SCORING

(FY 1998-2002, in billions of dollars)

	1998-2002
<b>MANAGED CARE</b>	<b>-22.1</b>
<b>HOSPITALS</b>	
Reduce Update for PPS Hospitals	-17.1
PPS Capital	-5.3
Reduce PPS-Exempt Hospitals	-3.5
PPS-Exempt Capital	-0.5
Hospital Depreciation	-0.2
Bad Debt	-0.5
Puerto Rico Standardized Amount	0.0
Grandfathers for LTC Hospitals	0.1
Retroactive Designation of Cancer Hospitals	0.0
Lower Indirect Medical Education	-5.6
Graduate Medical Education Pass-Through Payments	-0.9
Eliminates IME / DSH Adjustment to Outliers	-2.2
DSH Reductions	-0.6
Recalibrate DRGs for Transfers	-1.3
Rural Referral Centers	0.0
Miscellaneous Rural	0.3
Medicare Dependent Small Rural Hospital Extension	0.2
Payment of Med. Education [& DSH] removed from AAPCCs	4.0
PPS for Rehab Hospitals	0.3
Outpatient Prospective Payment System	-7.2
<b>SUBTOTAL</b>	<b>-40.0</b>
<b>HOME HEALTH</b>	
Home Health Policy	-16.2
<b>PHYSICIANS AND OTHER PRACTITIONERS</b>	
Physician Payment System	-5.3
Direct Payments to PAs and NPs	0.5
Reduce Payments to Select Pharmaceuticals	-0.4
Eliminate X-Ray Requirement for Chiropractors	0.3
<b>SUBTOTAL</b>	<b>-4.9</b>
<b>SKILLED NURSING FACILITIES</b>	
Skilled Nursing Facility Cost Limits & Per-Diem PPS	-9.5

## MEDICARE: CBO SCORING

(FY 1998-2002, in billions of dollars)

1998-2002

### FRAUD AND ABUSE

Medicare Secondary Payer Extension	-7.5
Medicare Secondary Payer Authority and Reporting	-0.4
Advisory Opinions Regarding Self-Referral	0.2
Misc. Fraud and Abuse Provisions	-0.3
<b>SUBTOTAL</b>	<b>-8.0</b>

### OTHER PROVIDERS

Hospice	-0.2
DME, P&O, Lab Competitive Bids and Rate Reduction	-0.8
Lab Updates	-1.9
ASC Update	-0.3
Oxygen	-2.1
Outpatient Therapy Providers	-1.7
Ambulance	0.0
Coverage of Oral Anti-emetics	0.0
Veterans Administration Subvention	0.1
PACE Program	0.0
Social HMO Demonstration	0.2
<b>SUBTOTAL</b>	<b>-6.7</b>

### PREMIUMS & BENEFICIARY CONTRIBUTIONS

Maintain Part B Premium at 25%	-14.9
Part A Premium Interaction	1.1
State / Local Buy-In	0.6
<b>SUBTOTAL</b>	<b>-13.2</b>

### BENEFICIARY INVESTMENTS

Colorectal Cancer Screening	0.6
Prostate Screening	0.6
Diabetes Self-Management Training and Supplies	2.1
Annual Mammography Screening	0.2
Screening Pap Smears and Pelvic Exams	0.1
Bone Mass Measurement	0.3
Reduce Part B Late Enrollment Penalty	0.1
Payment to states for coverage of premium interaction	1.3
<b>SUBTOTAL</b>	<b>5.3</b>

### TOTAL MEDICARE SAVINGS

**-115.3**

## MEDICARE PROVISIONS IN RECONCILIATION

ISSUE	POSITION
Home Health Reallocation	<b>Support immediate transfer</b> since gains 2 years of Trust Fund solvency <b>Fallback:</b> None; if have to accept, use Senate (House has technical prob.)
High-Income Premium	<b>Support if:</b> Administered through Treasury (not on the tax form), income thresholds are indexed, and phases out at 75% of costs. <b>Fallback:</b> Accept 100% phase out; change thresholds
Private Fee-For-Service Plans	<b>Oppose</b> because allows balance billing, risk segmentation <b>Fallback:</b> Add balance billing and premium protections
Private Physician Contracting	<b>Oppose</b> because it allows physicians to say that they will only treat beneficiaries if they agree to pay the full amount with no Medicare payment. <b>Fallback:</b> Require beneficiaries to sign an attestation to raise awareness.
MSAs	<b>Support if:</b> Limit to 100,000 or below; adopts Senate's use of Kassebaum-Kennedy cost sharing structure; time limited. <b>Fallback:</b> 250,000; nationwide; longer time
Medicare Commission	<b>Support if:</b> Even numbers; outside experts; President chooses chair; super majority; non-binding; report in 1999; uses Admin Actuaries not CBO. <b>Fallback:</b> No super majority; jointly chosen chair.
GME/DSH Carve Out	<b>Support</b> carving payments out of managed care payments assure that these facilities receive these funds. <b>Oppose excluding DSH.</b> <b>Fallback:</b> Study and then carve out if deemed necessary.
DSH Cut	<b>Oppose</b> since these hospitals serve a critical need in their communities <b>Fallback:</b> No compromise
Hospital transfer	<b>Support</b> transfers policy for all post-acute care settings. <b>Fallback:</b> Transfers for SNF only.
Prudent Purchasing	<b>Support including:</b> Senate's competitive bidding demonstration and inherent reasonableness; House's centers of excellence. <b>Fallback:</b> Demo w/ trigger for broader authority; 20% inherent reasonableness; no compromise on centers on excellence
Mammography	<b>Oppose cost sharing.</b> Waive the deductible & coinsurance in all settings. <b>Fallback:</b> Waive all cost sharing only for screening mammography.
Medigap	<b>Support Senate's</b> open enrollment for disabled beneficiaries & trial period for managed care enrollees. <b>Fallback:</b> Conference with guaranteed issue for disabled.
Office of Competition	<b>Oppose inclusion</b> <b>Fallback:</b> No compromise

Table 4B.—Estimated Budgetary Impact of Subtitles A-G, Medicare

-0.2 -1.1

By fiscal year, in billions of dollars	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	'98-02	'98-07
<b>Subtitle G: Provisions Relating to Parts A and B</b>													
Home Health Services	0.0	-1.1	-2.0	-4.1	-4.2	-4.7	-5.3	-6.0	-6.6	-7.3	-8.1	-16.2	-49.6
Indirect Medical Education	0.0	-0.4	-0.7	-1.1	-1.6	-1.8	-2.0	-2.2	-2.4	-2.7	-2.9	-5.6	-17.9
Direct Graduate Medical Education	0.0	-0.1	-0.1	-0.2	-0.2	-0.3	-0.4	-0.5	-0.6	-0.7	-0.8	-0.9	-3.7
Payments to Hospitals for Medicare+Choice Enrollees	0.0	0.1	0.4	0.8	1.1	1.6	2.0	2.3	2.8	3.0	3.2	4.0	17.3
Medicare Secondary Payer Provisions	0.0	-0.2	-1.8	-1.9	-2.0	-2.1	-2.2	-2.3	-2.4	-2.6	-2.7	-7.9	-20.1
<b>Total, Subtitle G</b>	<b>0.0</b>	<b>-1.8</b>	<b>-4.3</b>	<b>-6.5</b>	<b>-6.9</b>	<b>-7.3</b>	<b>-7.9</b>	<b>-8.7</b>	<b>-9.3</b>	<b>-10.3</b>	<b>-11.3</b>	<b>-26.8</b>	<b>-74.0</b>
<b>Part A Premium Interaction</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>1.1</b>	<b>4.0</b>
<b>TOTAL, MEDICARE NET OUTLAYS</b>	<b>0.0</b>	<b>-6.7</b>	<b>-16.4</b>	<b>-30.0</b>	<b>-21.2</b>	<b>-42.1</b>	<b>-41.9</b>	<b>-47.7</b>	<b>-55.8</b>	<b>-73.2</b>	<b>-58.9</b>	<b>-116.4</b>	<b>-393.8</b>
<b>Impact of Medicare Policy on Medicaid Spending for Premiums</b>													
Federal Spending		-0.0	0.1	0.2	0.4	0.6	0.8	1.1	1.4	1.7	2.0	1.3	8.3
State and Local Spending		-0.0	0.1	0.2	0.3	0.4	0.6	0.8	1.1	1.3	1.5	1.0	6.3
<b>Total</b>		<b>-0.0</b>	<b>0.2</b>	<b>0.4</b>	<b>0.7</b>	<b>1.0</b>	<b>1.5</b>	<b>2.0</b>	<b>2.5</b>	<b>3.0</b>	<b>3.5</b>	<b>2.3</b>	<b>14.6</b>
<b>TOTAL, MEDICARE AND MEDICAID /e</b>	<b>0.0</b>	<b>-6.7</b>	<b>-16.3</b>	<b>-29.7</b>	<b>-20.8</b>	<b>-41.6</b>	<b>-41.0</b>	<b>-46.6</b>	<b>-64.4</b>	<b>-71.5</b>	<b>-58.9</b>	<b>-116.1</b>	<b>-385.6</b>

23

**MEMORANDA:**

<b>Home Health Transfer (In billions of dollars)</b>													
Additional Home Health Spending in Part B	0.0	1.4	4.5	7.6	11.0	15.5	20.5	24.1	27.4	29.7	31.9	40.0	173.6
<b>Status of Hospital Insurance Trust Fund (In billions of dollars)</b>													
Income	127.7	131.0	136.5	142.3	147.9	154.2	160.6	166.9	173.6	180.4	187.2		
Outlays	137.4	142.3	145.9	149.3	158.2	159.4	170.1	180.4	197.3	202.4	221.6		
Surplus	-9.7	-11.3	-9.4	-7.0	-10.3	-5.2	-9.5	-13.6	-23.7	-22.1	-34.4		
Balance at End of Year	115.8	104.3	94.9	87.9	77.6	72.4	62.9	49.3	25.7	3.6	-30.8		

SOURCE: Congressional Budget Office.

**FOOTNOTES:**

- Less than \$50 million in savings or costs over the 1998-2002 period.
- The effect of this provision is shown net of its effect on Part A or Part B premiums.
- Includes effect of provisions affecting payments to physician assistants and clinical nurse specialists.
- Includes effect of provisions affecting payments for prosthetics and orthotics and parenteral and enteral nutrition.
- Total change in Medicare and Medicaid spending in this table does not include the full impact of provisions in Subtitles H and I that would increase spending for Medicare. Only the impact of those provisions on Medicare premiums is included here.