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

THE DIRECTOR

May 15, 1996

The Honorable Pete V. Domenici
Chairman
Committee on the Budget
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing to transmit the Administration's views on S.Con.Res. 57, the Senate Budget Committee's concurrent resolution on the budget for fiscal years 1997-2002.

Last week, the Senate Budget Committee crafted a resolution that was designed to appear more moderate than budget policies that the Republican majority pursued last year. But in some ways, the resolution has even more extreme policies than those in the reconciliation bill that the President vetoed.

For instance, the Republican plan calls for Medicare cuts of $167 billion -- $50 billion higher than the savings in the President's budget, according to CBO. Since the Budget Committee has claimed its proposed Medicare Part B savings are identical to the President's proposals, the full difference must come from Medicare Part A. Cuts of this size could limit beneficiary access to hospital health services and lead to lower payments to hospitals even in nominal terms -- not just cuts in the rate of growth. In addition, the structural changes proposed in recent Republican plans would seriously threaten the health of Medicare.

The resolution also includes $72 billion in Medicaid savings, which goes well beyond the savings in the last Republican Medicaid restructuring proposal (if estimated under CBO's new baseline). These figures do not even address the damaging structural changes contained in recent Republican proposals, including the block granting of Medicaid, that would undermine the guarantee of coverage. If these provisions are retained, the Republican plan would mean, for example, the elimination of coverage for as many as 2.5 million children between the ages of 13 and 18.

With regard to taxes, the resolution continues to raise income taxes on working Americans by cutting the Earned Income Tax Credit (EITC). The Senate's cut of at least $17 billion in the EITC actually makes working Americans worse off than the latest Republican budget offer from the President's negotiations with congressional leaders, which called for a cut of $15 billion.

In addition, the tax cuts -- which purport to be $122 billion -- are understated and misleading. For one thing, the cost of the child tax credit mysteriously falls in the year 2002, meaning that the revenue estimate for the credit is too low or part of the credit itself disappears. For another, the level of permitted tax cuts is actually higher. Not only does the resolution omit $36 billion in revenues from extending expiring provisions in last year's vetoed reconciliation bill, it also omits $26 billion in revenues from closing corporate loopholes and other tax measures from the last Republican offer. The resolution appears to reserve these revenues to pay for higher tax cuts. If incorporated in this resolution, these revenues could offset some of the unnecessarily deep cuts in Medicare, Medicaid, and other important priorities.

With regard to discretionary spending, the "savings" in this resolution may appear smaller due to the new baseline. In fact, however, the Republican plan proposes lower discretionary spending over the next six years than in their January offer, making it even harder to finance important priorities in education and training, the environment, science and technology, and law enforcement. Over the next six years, for instance, the resolution cuts education and training by $56 billion below the President's proposed levels.

As you know, the President has proposed a plan that the Congressional Budget Office said would reach balance in 2002. It targets tax relief to middle-income Americans, makes prudent savings in Medicare and Medicaid, and provides enough in discretionary funds to finance the President's investments in key priorities. Clearly, a balanced budget does not necessitate extreme and excessive cuts in programs on which tens of millions of Americans rely.

In their negotiations last winter, the President and congressional leaders came very close to reaching agreement on a long-term plan to balance the budget. The President wants to finish the job, and he has repeatedly asked the Republican leadership to return to the negotiating table. Although the Republican leadership has not yet accepted his offer, the President continues to reach out to groups of lawmakers who share his goal.

The President wants to balance the budget, and he urges the Republican leadership to join him in that endeavor -- to give the American people the responsible fiscal policy they deserve.

With regard to the budget resolution at hand, I want to express the Administration's deep reservations about the following elements:

Medicare and Medicaid. The Medicare cuts are too large. The resolution would cut Medicare by $167 billion, which would place huge stress on hospitals, resulting in cost-shifting and declining quality, and threatening the financial viability of hospitals -- particularly rural and inner-city hospitals.

The resolution would cut Medicaid by $72 billion -- far more than necessary to balance the budget in 2002 and, because of the new CBO baseline, higher than the cuts called for in the last Republican budget offer in January. If the resolution assumes previous Republican proposals that allow for lower State matching contributions, the actual cuts in Medicaid services and coverage could be as much as $250 billion. Moreover, the most recent Republican plans have continued to call for eliminating the guarantee of health coverage for millions of Americans.

Welfare. The resolution would cut low-income assistance programs by $53 billion over six years. Because the funding targets are virtually the same, the welfare reform provisions apparently have not changed from the bill the President vetoed in January, which coupled deep cuts with severe structural changes and bans on immigrants -- policies that would harm children and not transform the system to reward work. The President supports real welfare reform that would move people from welfare to work and protect children.

Student Loans. The resolution seeks to cap loan volume in the Direct Student Loan Program at 20 percent starting in academic year 1996-97 -- even though the Education Department is completing the final steps to implement the 50 percent volume target of current law.

Tax Cuts. While the resolution calls for tax cuts of $122 billion, it permits additional tax cuts of unspecified amounts. Tax cuts of this size are simply too expensive; they would force unnecessarily deep cuts in Medicare, Medicaid, education, the environment, and other priorities.

The President has proposed a less expensive, targeted tax cut to help middle-income Americans raise their young children, pay for postsecondary education, and save for the future. It is a much better way to help raise American living standards.

Discretionary Spending. The resolution's non-defense discretionary level is wholly inadequate to fund key investments in education and training, the environment, science and technology, and law enforcement. It provides $19 billion less in fiscal 1997 than the President's budget.

Rather than provide the necessary resources for these investments, the resolution provides $11 billion more in defense budget authority than the President's budget in 1997 -- which commits historically high levels of resources to readiness, as measured in funding per troop. (Further, in the critical years of defense modernization at the turn of the century, the resolution does not provide enough budget authority, compared to the President's defense program.)

Moreover, the resolution does not even provide the "freeze" level that it claims. It characterizes the 1997 non-defense funding levels as a freeze from the fiscal 1996 agreement. That level, however, is more than $2 billion less than a true freeze, because it does not fully account for one-time spending cuts that Congress used as "offsets" in the 1996 omnibus spending bill.

In addition, the resolution targets some of the investments for deep cuts. In 1997, discretionary funds for education and training would fall by $3 billion, compared to 1995. For example, over the next six years, the resolution would cut these programs by $56 billion below the President's proposed education levels. For the environment, the resolution would cut EPA operations by 11 percent in 1997, and 23 percent by 2002 -- significantly cutting enforcement actions and inspections, and ending efforts to spur new technologies.

While the Administration and Congress share the goal of a balanced budget, we have grave concerns about the approach contained in this resolution. We also hope that Republicans learned from last year's experience, which included two government shutdowns and 13 continuing resolutions, that we need to work together. We want to work with you, as the process moves forward, to achieve a balanced budget that is acceptable to the President, the Congress, and the American people.

Sincerely,

Alice M. Rivlin

Alice M. Rivlin
Director

Attachment

IDENTICAL LETTER SENT TO HONORABLE J. JAMES EXON

Attachment: Specific Concerns with S.Con.Res. 57 as Reported by Senate Budget Committee

MEDICARE

The Medicare cuts are too large. The resolution would cut Medicare by $167 billion -- $50 billion more than the President's budget, according to CBO.

As the President's budget shows, cuts of this magnitude are unnecessary to balance the budget in 2002. The President's budget would reduce projected Medicare costs by a reasonable amount while still achieving a balanced budget in 2002 and extending the life of the Medicare Hospital Insurance Trust Fund to about 2006.

The Senate Budget Committee said its $167 billion in cuts would include $123 billion in Medicare Part A cuts. To achieve this amount of Part A savings, the Senate Republican plan must cut Medicare Part A by almost $10 billion more than in last year's congressional Republican plan. The deep cuts in Medicare payments to hospitals would result in cost-shifting, undermine quality, and threaten the financial viability of hospitals -- particularly rural and inner-city hospitals.

Moreover, the structural changes proposed in recent Republican budget plans would seriously threaten the health of the Medicare program:

- Medical Savings Accounts (MSAs) would likely attract healthier Medicare beneficiaries for whom Medicare now spends very little. If this assumption is correct (as CBO concluded last fall), MSAs could end up costing Medicare a great deal and speeding the depletion of the Hospital Insurance Trust Fund.

- Republican proposals would also permit physicians participating in a private fee-for-service plan to charge beneficiaries extra through "balance billing," which would increase out-of-pocket costs for beneficiaries and seriously threaten the viability of the traditional Medicare system.

- The Republican budget fail-safe, which would automatically impose additional cuts in Medicare over the savings that the resolution calls for, would trigger if health care costs rise faster than projected. This would put providers directly at risk for cost problems beyond their control and would, of course, indirectly threaten beneficiaries in terms of lower quality and access.

MEDICAID

The resolution would cut Medicaid spending by $72 billion -- far more than needed to balance the budget in 2002. The latest Republican offer called for $85 billion in savings off CBO's December 1995 baseline; but, off CBO's new, lower March 1996 baseline, the same policies would save only $60 billion. The resolution, thus, cuts more from Medicaid because it has more savings off a lower baseline.

Moreover, under the budget resolution, total Medicaid cuts could far exceed $72 billion if States are permitted to reduce their State matching amounts. Last year's vetoed reconciliation bill called for reducing State matching requirements.

But more than dollars are at stake. The resolution gives no indication that congressional Republicans plan to withdraw their proposal to block grant Medicaid. If a block grant were enacted, funding levels no longer would automatically respond to economic crises, such as recessions; millions of people would lose their guaranteed access to health care, and those who do receive coverage would no longer have a Federal guarantee to a basic level of benefits.

In addition, there are indications that under the Republican plan, phase-in coverage for poverty-level children aged 13-18 would be eliminated. Moreover, if Republicans retain their previous disability eligibility criteria, millions of people with disabilities would be at risk for losing their current guarantee to coverage.

Also of great concern, the Committee's plan provides no assurance of continued federal enforcement of nursing home quality standards, which have dramatically improved the quality of nursing home care.

By contrast, the President's budget -- while giving States unprecedented flexibility to manage their programs -- would preserve the guarantee of health coverage for millions of children, pregnant women, people with disabilities, and older Americans. We can balance the budget without leaving States, and the families they serve, vulnerable to factors beyond their control.

WELFARE

The resolution's cuts in welfare programs -- $53 billion, excluding related Medicaid savings -- are the same as in the vetoed welfare bill, and much deeper than in the recent NGA proposal. While the resolution adopts the NGA recommendation to block grant AFDC, it does not explicitly endorse the NGA's childcare and work funding recommendations. If the Senate plan seeks to meet the $53 billion savings target <u>and</u> provide added child care and work program funding, it would have to cut Food Stamps, SSI, immigrants and other programs even more deeply than the vetoed welfare bill. These cuts could mean that a large majority of disabled children coming on the SSI rolls could have their benefits reduced, the national nutrition safety net could be jeopardized, and legal, tax-paying immigrants could be banned from most means-tested programs.

The plan would fold 20 separate child protection programs into two block grants at a time when the General Accounting Office and others report that current resources are not keeping pace with the needs of a national child protection system in crisis. Under this plan, funds could be inadequate to respond to rapidly rising reports of abuse and neglect, and insufficient to protect abused children and find them safe, loving and permanent adoptive homes. In addition, the plan potentially guts accountability for State child protection systems, over 20 of which are operating under court mandates for failing to provide adequate service to abused and neglected children.

STUDENT LOANS

The resolution would cap the Federal direct student loan program at 20 percent of loan volume. Since, as of July 1, the law provides for at least 50 percent of loan volume to be direct lending, the cap would eliminate 1,100 schools and 1.6 million students from direct lending that are expected to participate in the upcoming academic year. The cuts would deny direct lending opportunities to 7 million borrowers between 1997 and 2002.

TAXES

The resolution continues to raise income taxes on millions of working Americans by cutting the Earned Income Tax Credit (EITC). It calls for $17 billion of EITC cuts. The EITC helps low-income working families stay off welfare and out of poverty. Under the resolution, millions of families with children could see a cut in their EITC. Over 4 million workers who do not reside with children would lose eligibility for the EITC, raising their taxes, on average, by $174 a year.

The Republican plan calls for cutting the EITC as the child credit is phased in. But some working families with children will lose part or all of the EITC and not receive any child credit. Other EITC families will receive some child credit but, unlike better-off families with children, must sacrifice some tax benefits in exchange for the child credit.

In addition, the resolution purportedly contains tax cuts of $122 billion over 6 years -- specifically, a child tax credit that costs $23 billion a year. But the resolution assumes -- without saying why -- that the cost of the credit suddenly falls to $16 billion in the last year. Either the revenue estimate for the credit is too low, or part of the credit itself mysteriously disappears.

In the resolution, the revenue line itself is a smoke screen: It allows for another "deficit neutral" tax relief bill, financed through revenues that Republicans apparently have held in reserve. Not only does the resolution omit $36 billion in revenues from extending expiring provisions in last year's vetoed reconciliation bill, it also omits $26 billion in revenues from closing corporate loopholes and other tax measures from the last Republican offer. Rather than use these dollars to mitigate the excessive cuts in Medicare, Medicaid, and welfare, the resolution makes those funds available for more tax cuts. If such tax cuts mirrored last year's vetoed reconciliation bill, they would favor the well-off; that bill devoted about half of its tax cuts to people making over $100,000.

DISCRETIONARY SPENDING

The resolution calls for total discretionary cuts of $295 billion over 6 years -- over $60 billion more than in the President's budget, as scored by CBO. These cuts would not provide enough resources to finance vital investments in education and training, the environment, science and technology, law enforcement, and other priorities.

While the resolution asserts that non-defense discretionary spending in 1997 is essentially frozen, the plan actually would cut it by over $2 billion. In the 1996 Omnibus Appropriations bill, Congress agreed to finance higher levels of spending for education, for the environment, and for crime programs by approving mandatory savings such as debt collection and housing reform and by reducing the FEMA Disaster Relief account by $1 billion. These were one-time savings that cannot be, or are not expected to be, repeated in 1997. The Committee has not fully compensated for these one-time offsets; thus, it effectively cut non-defense spending by over $2 billion. Such cuts would make it very difficult to sustain even the 1996 funding levels for education, the environment, and crime programs.

For discretionary spending, the House Budget Committee's resolution provides far more detailed assumptions about specific program cuts and terminations. Nevertheless, the Senate Budget Committee indicates what could happen to funding in key areas. For instance:

> **Education and Training.** In 1997, the resolution would cut education and training by $3 billion, compared to 1995. Over the next six years, the resolution cuts these programs by $56 billion below the President's proposed levels. For 1997 alone, the resolution would provide $6 billion less than the President for education and training.
>
> **The Environment and Natural Resources.** The resolution would cut funds for EPA operations by 23 percent in 2002, compared to the President's budget. EPA enforcement actions -- including facility inspections -- would likely be significantly cut from levels in the President's budget, substantially affecting EPA's ability to protect public health and the environment.
>
> Also compared to the President's budget, the Republican plan would cut funding for environment and natural resources programs by 16 percent in 2002. It would, for instance, cut the National Park Service by 20 percent in 2002 -- further delaying and

deferring maintenance of important NPS facilities, reducing NPS ability to meet demands from increasing park visitation, and causing deterioration of natural, cultural, and historical resources.

Anti-Crime Programs. At $21.4 billion, the resolution is $1.8 billion below the President's request of $23.2 billion for 1997, sharply cutting the President's proposals to fight crime.

Defense. The resolution calls for $11 billion in discretionary budget authority and $3 billion in outlays above the President's 1997 request. These defense add-ons are unnecessary. The President's budgets have committed unprecedented resources to readiness, as measured per troop, and have systematically sought supplemental support to ensure that contingency operations do not have negative consequences for military readiness. As a result, the readiness levels of the U.S. military are at historically high levels today.

Moreover, these defense add-ons would undermine important non-defense investments in 1997. The Republican plan would use budget "firewalls" to prevent Appropriations Committees from making their own choices between these unrequested defense expenditures and other priority programs.

In addition, with regard to recapitalization, the resolution provides around $15 billion in budget authority less than the President's budget from fiscal 2000 to 2002 -- the critical years for defense recapitalization. The President's recapitalization plan provides a more reasoned, responsible approach to defense spending by making more resources available at the turn of the century when new technologies come on line.

International Affairs. The resolution would cut international affairs spending by $1.2 billion from the President's budget for 1997 to $18.1 billion -- far below the $20.1 billion available in 1995 and also below the 1996 level. Overall, the resolution proposes a 23 per cent cut by 2002 below the President's request. Although details are limited, the resolution seems to target multilateral programs, including multilateral development bank lending to the poorest countries of the world and contributions to the United Nations and related international organizations including peacekeeping programs. These programs serve a variety of important U.S. objectives and in which other countries provide from three to twenty times the U.S. contribution, so long as the United States provides some funding.

The supporting materials do not explain this rejection of international burdensharing, which benefits the United States. Other programs that may be cut are vital to national security and possibly humanitarian relief. The plan would severely limit America's ability to exert the global leadership necessary to promote the security and prosperity of the American people.

THE WHITE HOUSE

WASHINGTON

June 28, 1995

Dear Mr. Leader:

We share the goal of balancing the federal budget, and I look forward to working with you on this important matter.

But as we work together to reach our shared goal, we must ensure that we do so the right way -- the way that will raise the standards of living for average Americans.

My plan to balance the budget over 10 years will help raise average living standards by cutting unnecessary spending while investing in education and training, targeting tax relief to middle-income Americans, and taking incremental but serious steps toward health care reform. By contrast, the conference agreement cuts too deeply into Medicare and Medicaid and cuts education and training both to pay for a tax cut that is too large for too many who don't need it, and to meet the 7 year time frame.

Though I am determined to work with you to balance the budget, I cannot accept legislation that will threaten the living standards of American families.

I hope we can work together and avoid a situation in which I would have no choice but to use my veto authority broadly. The American people want us to work together to balance the budget and to do it the right way. I am ready to do that.

Sincerely,

Bill Clinton

The Honorable Bob Dole
Majority Leader
United States Senate
Washington, D.C. 20510

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

THE DIRECTOR

June 28, 1995

The Honorable Pete V. Domenici
Chairman
Committee on the Budget
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing to transmit the Administration's views on the conference report on H. Con. Res. 67, the concurrent resolution on the budget for fiscal years 1996-2002.

We stand at an important moment in the nation's history. For the first time in recent memory, the President and leaders in Congress have agreed that we must put in place a plan to balance the federal budget. We want to work with Congress on this important goal.

The key question is: How? With this conference report, the American people now have before them two profoundly different approaches -- the President's 10-year plan and the conferees' 7-year plan.

As the Administration has indicated to Congress on many occasions, we have very serious concerns about the approach taken in this conference report. The conferees would balance the budget too quickly and, at the same time, provide a huge tax cut whose benefits would flow disproportionately to the wealthy. To do so, the conferees would cut deeply into Medicare and Medicaid and cut discretionary spending so much that funds for education and training, science and technology, and other priorities that would help raise the living standards of average Americans would be seriously depleted.

If reconciliation and appropriations legislation implementing these policies were presented to the President, I would strongly recommend that he use his veto authority.

The President's plan to balance the budget over a reasonable period of time would protect Medicare and Medicaid, invest in education and training and other priorities, and provide for a targeted tax cut to help middle-income Americans raise their children, save for the future, and pay for postsecondary education.

To reach balance, the President would eliminate wasteful spending, streamline programs, and end unneeded subsidies; take the first, serious steps toward health care reform; reform welfare to reward work; cut non-defense discretionary spending, aside from the President's investments, 22 percent in real terms in 2002; and target tax relief to middle-income Americans.

From our early analysis of the conference report, we continue to have the same concerns that we expressed about both the House and Senate budget resolutions.

Specifically, I want to express the Administration's deep reservations about the following elements of the conference agreement:

Time frame to a balanced budget. Last fall, Congressional Republicans set an arbitrary goal of balancing the budget over 7 years while providing a huge tax cut whose benefits would flow disproportionately to the wealthy. Then, they had to find the spending cuts needed to reach balance in 2002. That is the wrong approach.

By contrast, the President chose his policies first and let the date to reach balance flow from them. As a result, he was able to cut wasteful spending while protecting vital services.

Tax cuts. The conferees have settled on a $245 billion tax cut, whose details will be crafted by the congressional tax-writing committees. Such a tax cut is too expensive; it will force unnecessarily deep cuts in Medicare as well as education and other priorities. And, based on the House-passed tax proposal, we remain concerned that the benefits will flow mostly to those who do not need them -- the very individuals who have moved ahead over the last two decades as others stayed in place or fell behind.

The President has proposed a less expensive, targeted tax cut to help middle-income Americans raise their young children, pay for postsecondary education, and save for the future. That is a much better way to help raise average living standards.

Health care. The conferees propose to cut Medicare by $270 billion by slowing the annual growth rate to an average of 6.4 percent over 1995 to 2002. They propose to reduce Medicaid by $182 billion, by converting it into a block grant and slowing the annual growth rate to 4 percent by 1998. Such proposals would threaten Medicare beneficiaries, cut Medicaid coverage for millions of children and elderly Americans, and endanger many hospitals, including academic health centers. Assuming a 50/50 beneficiary/provider split, these steps would raise out-of-pocket costs for couples on Medicare by $5,650 between 1996 and 2002. These severe out-of-pocket increases would not be necessary if the conferees opted for the President's tax cut proposal.

As the President has often said, the key to long-term deficit reduction is controlling health care costs through health care reform. He proposes a serious first step toward reform that would strengthen the Medicare Hospital Insurance

(HI) Trust Fund, ensuring Medicare solvency until at least 2005; expand benefits to families; make insurance more affordable for small business; and reform the insurance market. At the same time, he proposes less than half the Medicare savings and a third of the Medicaid savings as Congress, and would impose no new cost increases on Medicare beneficiaries.

Education and other investments. In attempting to balance the budget over 7 years and finance a huge tax cut, Congress would have to cut virtually everything else, including the very programs that would help raise average living standards. Compared to the 1995 level, the resolution would cut discretionary spending for education and training by $26 billion over seven years. In addition, the conference report proposes saving $10 billion in the student loan program, apparently by raising costs to middle- and low-income students.

By contrast, the President proposes to increase discretionary funding for education and training by $41 billion over the next 7 years. In addition, the President would save money in the student loan program not by cutting in-school interest subsidies and forcing middle- and low-income students to pay more; rather, he would phase in Federal Direct Student Loans quicker, cutting subsidies to wealthy banks, secondary markets, and other intermediaries. That would assist 6 million people a year -- and save money for the government, schools, and students.

In addition, the Administration remains concerned about the size of the proposed welfare cuts; they would cut benefits to poor families, thus punishing children in the process. Congress would increase the tax burden on low-income families by rolling back scheduled increases in the Earned Income Tax Credit, which is designed to reward work by lifting working families out of poverty.

Overall, while the Administration and Congress share the goal of a balanced budget, we have grave concerns about the approach set forth in this conference report. We hope to work with you, as the process moves forward, to find an approach that is acceptable to both the President and Congress.

Sincerely,

Alice M. Rivlin

Alice M. Rivlin
Director

Identical letter sent to Honorable J. James Exon, Honorable John R. Kasich, Honorable Martin Olav Sabo

Budget Agreement - Q & A

Q: DOESN'T THIS BUDGET FAIL A BASIC TEST OF FAIRNESS?

A: No, it is a tough budget, but it is a fair budget.

- **It protects the most vulnerable members of our society**. To gauge fairness one has to look at what will be the impact on the lives of the most vulnerable, including the young and the old, the sick and the poor, and those who are new to this country. Look at what this budget does:

  1) It expands health coverage to as many as five million poor or near poor American children.

  2) It restores basic disability and health benefits for legal immigrants, something the President was determined to do.

  3) It retains the basic federal guarantee of Medicaid coverage for the nation's poor.

  4) To improve the lives of countless senior citizens, it expands health coverage to include critical preventive diseases, to help our elderly fight terrible diseases such as diabetes.

- **The budget remembers the often forgotten middle class.** This budget will make it easier for parents to raise their kids and send them to college.

- **And just like the Economic Plan passed during the first term, more Americans will have jobs with this budget than they would without it.**

Q: LAST YEAR THE ADMINISTRATION CRITICIZED AS EXTREME MEDICARE CUTS OF SIMILAR MAGNITUDE. WERE YOU DEMAGOGING LAST YEAR OR ARE YOU HURTING SENIORS THIS YEAR?

A: **There are very real differences between the Medicare reforms assumed in this agreement and what was vetoed in 1995. The same policies the Republicans would have cut excessively are being promoted in today's agreement.**

1) **Aligning growth rates with private vs. cutting far below** - the agreement aligns Medicare growth rates with today's projected private premium growth rates. By contrast, the vetoed bill would have cut Medicare growth rates far below the relative private sector growth rates. This would have damaged the Medicare program and hurt beneficiaries.

2) **Savings are Smaller** - The vetoed Medicare bill would have cut Medicare by $270 billion over six years, whe agreement includes $200 billion in savings.

3) **Critical Investments vs. No Investments** - the agreement includes critical investments in preventive coverage for such diseases as diabetes and breast cancer, holding the promise of improving the lives of countless senior citizens. The vetoed budget included extremely modest investments, $100 million for coverage of oral breast cancer drugs.

Q: CAN YOU ASSURE AMERICA'S SENIORS THAT THEIR MEDICARE ISN'T BEING CUT TO PAY FOR TAX CUTS FOR THE RICH?

- **The bulk of the tax cuts in the balanced budget agreement are designed to make it easier for parents to raise their children and to send them to college.**

- **The senior citizens of this country support these goals - they want to their grandchildren to receive a quality education and be able to afford to go to college.**

- **This agreement will modernize Medicare, make it more efficient, and extend its solvency for a decade.** Senior citizens will have more health care options and better information to make choices.

- **The President worked hard to make sure that critical preventive benefits were added to the health coverage Medicare beneficiaries receive.** This will allow countless of our elderly and their doctors to detect diseases early and to better manage diseases, such as diabetes and breast cancer.

Q: ISN'T IT TRUE THAT UNDER CBO ASSUMPTIONS THE BUDGET DOES NOT REACH BALANCE IN 2002?

A: The balanced budget agreement incorporates conservative economic assumptions.

- **In each of the last four years, we have <u>over-estimated</u> the size of the deficit**, and <u>under-estimated</u> the pace of economic growth. Our assumptions for future years are similarly conservative.

- **The agreement uses even more pessimistic assumptions than ours**. Forecasts for economic growth, inflation, and interest rates are all from CBO.

- **The only departure from CBO is, within GDP, in the esoteric category of income shares.** The Administration's income share assumptions are incorporated.

- **The Administration's income share forecasts are also conservative**. The shares that disproportionately drive federal revenues -- profits as a share of GDP, wages as a share of GDP, and other taxable income as a share of GDP -- are all assumed to be lower over the next 5 years than they were in 1996.

- **Neither CBO's assumptions or the assumptions underlying the agreement reflect the recent good news on the deficit**. Because revenue projections are coming in much stronger than expected again, a strong case could be made that the deficit projections are too pessimistic.

Q: ISN'T THIS BUDGET BACKLOADED - AREN'T ????85???? PERCENT OF THE SAVINGS ACHIEVED IN THE LAST TWO YEARS?

A: No, this budget is not backloaded. - best number -

- **This ignores the fact that 63% of the work has already been done**. We have cut the deficit from $290 billion to $107 billion. This agreement finishes the job in a credible way. The budget deficit follows a very smooth path from the $290 billion in 1992 to balance in 2002.

- **This budget includes significant changes in each of the major entitlement programs that will be written into law this year.** It's is true that the savings grow over time, but that is exactly want we need to do - address the challenge today and implement solutions that are permanent. That's what this budget does.

Q: WHY WOULD ANY DEMOCRAT UP FOR ELECTION IN 1998 VOTE FOR A BUDGET THAT CUTS SOCIAL SECURITY AND MEDICARE?

A: I am confident a majority of Democrats and Republicans will support this balanced budget plan because it is the right thing to do for the country.

- **The agreement stands firm on Democratic principles and advances Democratic priorities:**

1) **Expands educational opportunity**
    - Largest Pell Grant increase in two decades - 3.6 million students will get increase.
    - A tax cut to make college more affordable for middle income families.
    - Expansion of Head Start - to achieve goal of 1 million kids in 2002.

2) **Expands health coverage for as many as 5 million children.**

3) **Strengthens and Modernizes Medicare and Medicaid:**
    - Extends the solvency of Medicare Trust Fund for at least a decade.
    - Provides beneficiaries more health care options and better information.
    - Expands coverage of critical preventive treatments of diseases, such as diabetes and breast cancer.

4) **Strengthens environmental protection and enforcement**
    - Accelerates Superfund cleanups by almost 500 sites by the year 2000.
    - Expands the Brownfield Redevelopment Initiative to help communities cleanup and redevelop contaminated areas.
    - Boosts environmental enforcement by 9 percent

5) **Treats legal immigrants fairly**
    - Restores disability and health benefits for law-abiding, disabled immigrants who work hard, pay taxes, and will otherwise lose their health care coverage.
    - Restores Medicaid coverage for poor legal immigrant children.

- **Finally, this agreement will help restore the faith this nation has in its ability to govern itself.** During the 1980s, the explosion of debt and large deficits cast doubt on the nation's abilities to govern effectively. This agreement demonstrates that we can govern ourselves effectively. I am confident it is an effort Democrats will want to join.

Q: THIS BUDGET CUTS ENTITLEMENTS, INCREASES DEFENSE SPENDING, CUTS DOMESTIC SPENDING IN REAL TERMS, AND PROVIDES TAX CUTS FOR THE WELL-OFF. ISN'T THIS ESSENTIALLY A REPUBLICAN DOCUMENT?

A: The agreement stands firm on Democratic principles and advances Democratic priorities:

1) **Expands educational opportunity**
   - Largest Pell Grant increase in two decades - 3.6 million students will get increase.
   - A tax cut to make college more affordable for middle income families.
   - Expansion of Head Start - to achieve goal of 1 million kids in 2002.

2) **Expands health coverage for as many as 5 million children.**

3) **Strengthens and Modernizes Medicare and Medicaid**, including:
   - Extends the solvency of Medicare Trust Fund for at least a decade.
   - Provides beneficiaries more health care options and better information.
   - Expands coverage of critical preventive treatments of diseases, such as diabetes and breast cancer.

4) **Strengthens environmental protection and enforcement**
   - Accelerates Superfund cleanups by almost 500 sites by the year 2000.
   - Expands the Brownfield Redevelopment Initiative to help communities cleanup and redevelop contaminated areas.
   - Boosts environmental enforcement by 9 percent

5) **Treats legal immigrants fairly**
   - Restores disability and health benefits for law-abiding disabled immigrants who work hard, pay taxes, and would otherwise their health care coverage.
   - Restores Medicaid coverage for poor legal immigrant children.

- **Finally, this agreement will help restore the faith this nation has in its ability to govern itself.** During the 1980s, the explosion of debt and large deficits cast doubt on the nation's abilities to govern effectively. This agreement demonstrates that we can govern ourselves effectively. I am confident it is an effort Democrats will want to join.

Q: **WHAT'S THE 6-SAVINGS FIGURE FOR MEDICARE IN THIS BUDGET? HOW ABOUT THE 6-YEAR FIGURE ON TAX CUTS? HOW DIFFERENT ARE THOSE NUMBERS FROM THE LAST GOP PROPOSAL FROM LAST YEAR?**

A: **Both the Medicare savings and the tax cuts in this agreement are smaller than similar provisions in the previous Republican plan.**

- **The Medicare differences are even greater than the numbers imply**. The reason the Republican plan was so potentially damaging to Medicare was that it would have cut Medicare's growth rate well below comparable private sector growth rates. It also included harmful structural reforms which would have undermined the program, including balanced billing and hard spending caps. By contrast, this agreement aligns Medicare's growth rate with private sector growth rates. It also contains structural reforms that will modernize Medicare, offering more choices for managed care, shifting to competitive pricing, enhancing preventive coverage, and offering consumers more information.

- **These are not the same tax cuts the Republicans proposed**. Last year's Republican plan raised taxes on hard working people at the bottom end of the income spectrum and provided tax cuts disproportionately to people at the top end. This agreement includes no such tax cut on working families. It does include a tax cut for middle income families to make it easier for them to raise their children and send them to college.

Q: **THIS BUDGET SPENDS $120 [ck.] BILLION MORE THAN LAST YEAR'S. IS THAT FISCAL RESTRAINT?**

A: **All of the deficit reduction in this balanced budget agreement comes from the spending side of the ledger.** Over five years, total spending will be cut xxxxx billion. (Entitlement/disc breakdown).

- Spending as of share of GDP stood at 22.5 percent in 1992. Following the 1993 economic plan, spending has fallen to 20.8 percent of GDP today. This agreement will further reduce spending as a share of GDP to 18.xxx in 20002, which would be its lowest level since 1974.

Q: THIS AGREEMENT EXTENDS THE LIFE OF THE MEDICARE TRUST FUND AT LEAST A DECADE HOW QUICKLY WILL YOU MOVE TO RESTORE THE TRUST FUND'S SOLVENCY IN THE LONGER TERM? AND WHEN CAN WE EXPECT YOU TO TAKE ON SOCIAL SECURITY WHICH FACES ITS OWN CRISIS?

A: **This balanced budget takes us a solid step forward in our nation's preparation for the retirement of the baby boom generation.** In preparation, we must do what we can today to both boost future living standards and solidify the basic financial soundness of individual programs. This agreement does both.

- **This budget agreement, coupled with the 1993 economic plan, will have reduced the cumulative deficit over the 1993-2002 period by more than $2 trillion.** This is the surest way we know to boost national savings to support higher future living standards. This accomplishment will have many long-term positive economic consequences.

- **This balanced budget plan also puts the individual programs of Medicare and Social Security on sounder financial footing.**

  - **Medicare** - The solvency of the Medicare trust fund is extended by a decade and several crucial structural reforms are implemented offering more health plans options, shifting to competitive pricing, enhancing preventive coverage, and offering consumers more information.

  - **Social Security** - the more accurate measure of cost-of-living increases included in the agreement will reduce the long-term financing gap in the Social Security system by **25** percent, and extend the life of the Trust Fund for **5** years.

- **As this balanced budget plan is being implemented, focus can shift to even longer term concerns, looking several decades ahead.** Again, this balanced budget agreement is a major step forward in that regard and is the surest way we know to improve the long-term outlook.

Q: THIS BUDGET ACHIEVES MEDICARE SAVINGS THROUGH PRICE CONTROLS THAT DO NOTHING TO REFORM THE SYSTEM. WHY DID YOU PASS UP THIS CHANCE TO ENACT REAL REFORM?

A: **This budget includes real Medicare reforms:**

1) **Restructures Medicare's fastest growing services.** Builds on the successes Medicare has had in controlling hospital costs, restructuring the payment system for home health, skilled nursing facilities, and hospital outpatient services.

2) **Offers consumers more choices for managed care.** Allows Medicare to work with Preferred Provider Organizations (PPOs) and Provider Sponsored Organizations (PSOs) and provides annual Medigap enrollment without fear of higher premiums or penalties for pre-existing conditions.

3) **Takes steps to remedy the well-documented overpayment to Medicare managed care through a one-time reduction of about 5% in HMO payments in the year 2000.** It also addresses the flawed payment methodology that has led to great geographical disparity.

Q: DOESN'T THE AGREEMENT RELY ON ONE-TIME GIMMICKS TO REACH BALANCE IN 2002?

A: No, the savings come from tough policy choices that will be written into law this year and produce real savings. These savings will flow from all categories of the budget.

Budget →

1 pager
2-pager
q+a
long doc.

9:45
11:00

Talking Points for Budget Validation
"Deal is Credible"

The agreement includes <u>significant</u> and <u>permanent</u> savings and <u>structural</u> changes in major entitlement programs.

This budget agreement passes the threshold test of signficant and permanent entitlement savings. Past budgets have been criticized for ignoring entitlements and focusing instead on what Bob Reischauer has called "unfulfillable promises" to cut discretionary spending in outyears. Not so for this budget agreement. Significant savings are achieved in each of the largest entitlements and in the fastest growing entitlements.

1) Medicare

- Slows Medicare spending per beneficiary bring it in line the private sector growth rates. This, in combination with important substantial structural reforms, achieves $115 billion in savings over five years.

- Medicare is modernized through a series of structural changes, including: reforming the way it pays for managed care, expanding managed care choices, providing consumers with information to make educated choices, and introducing effective payment systems for fast-growing Medicare services.

- Medicare is prepared for the twenty-first century by aligning its benefits and payment methodologies with the private sector and by extending the life of the Hospital Insurance Trust Fund for at least a decade.

- The agreement holds the line on premiums for beneficiaries, keeping premiums at 25% of Part B program costs, and adds much-needed preventive benefits for beneficiaries, including annual mamograms and diabetes self-mamnagement.

2) Social Security

- The more accurate measure of cost-of-living increases included in the agreement will reduce the long-term financing gap in the Social Security system by 20 percent, and extend the life of the Trust Fund until at least 2033.

3) Medicaid

- Preserves the Federal guarantee to health care coverage for the vulnerable populations on Medicaid. For the first time, incentives are introduced in Medicaid to restrain cost growth - without risking coverage and growth in Medicaid spending per beneficiary will be brought into line with private premium growth.

- States are given unprecedented flexibility to operate their programs more efficiently and to make coverage more stable and accessible to low-income children.

Discretionary Spending Cuts are <u>Realistic</u>

- Overall discretionary spending is cut $149 billion (81 Defense/68 Nondefense) over five years from an inflation adjusted baseline. Spending in the year 2002 is cut 10% on an inflation adjusted basis.

- Cuts are significant, but importantly, they are realistic, credible, and enforceable.

Income Shares and Overall Assumptions Are Conservative

- **In each of the last four years, we have <u>over-estimated</u> the size of the deficit**, and <u>under-estimated</u> the pace of economic growth. Our assumptions for future years are similarly conservative.

- **The agreement uses even more pessimistic assumptions than ours**. Forecasts for economic growth, inflation, and interest rates are all from CBO.

- **The only departure from CBO is, within GDP, in the esoteric category of income shares.** The Administration's income share assumptions are incorporated.

- **The Administration's income share forecasts are also conservative.** The shares that disproportionately drive federal revenues -- profits as a share of GDP, wages as a share of GDP, and other taxable income as a share of GDP -- are all assumed to be lower over the next 5 years than they were in 1996.

Recent Good News on Deficit is <u>not</u> Included

- Once agan evidence is mounting that deficit estimates are too high. Revenues are now expected to come in about **$50 billion higher** than projected. Last year the higher revenues were considered an anomaly - no more. Increasingly, it appears that something more is at work and future deficit will also consequently be lower. These higher revenue and corresponding lower deficit impacts are <u>not</u> incorporated into the assumptions underlying this agreement.

Perspective on the Sea Change that has Occurred

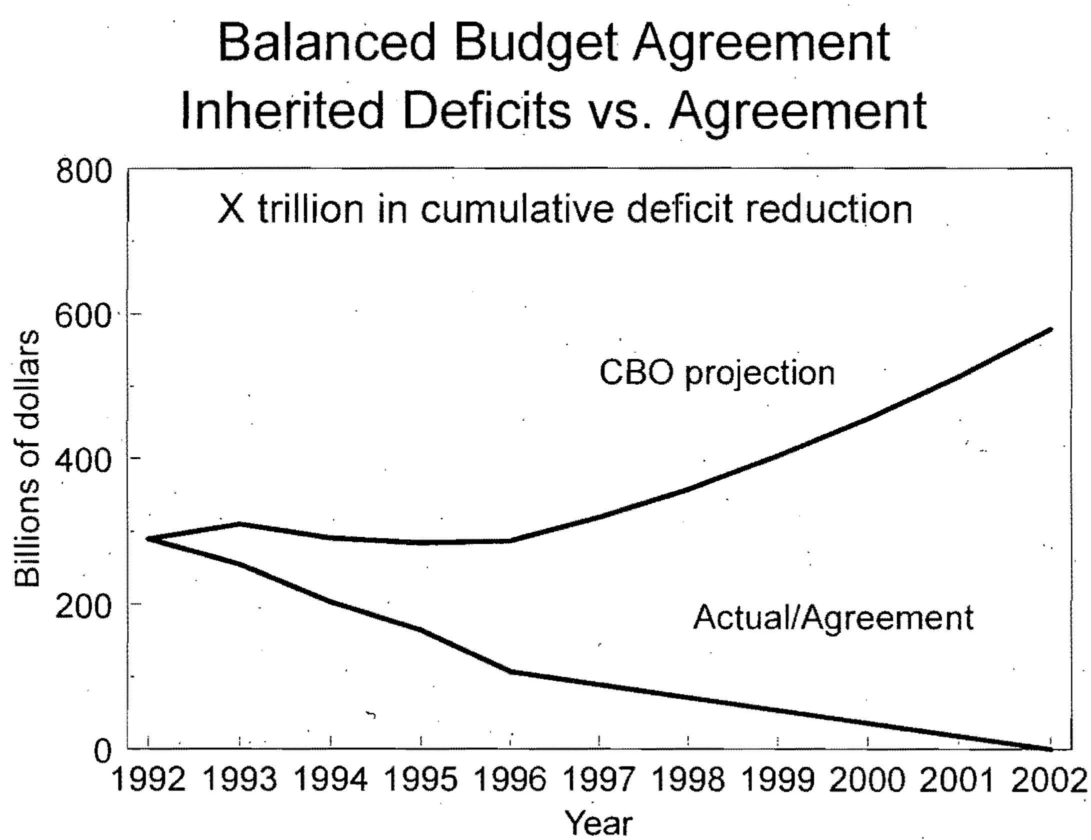
- Back in 1993, the deficit was projected to be headed above one-half trillion dollars in 2002. Now it is headed to zero - it is hard for even the most skeptical to deny a sea change has occurred.

Historic Achievement
The First Balanced Budget in a Generation

This bipartisan balanced budget agreement continues our strong economic progress, restores faith in our ability to govern ourselves, and bolsters our preeminent position in the world economy as we head into the 21st century.

Look How Far We've Come

- **The President inherited a budget deficit of $290 billion that was expected to explode to over one-half trillion dollars in 2002.** A decade of large deficits had weakened the foundation of our economy, cast doubt on the country's ability to self-govern, and sapped our power and prestige abroad.
- **President Clinton has boldly addressed this challenge since Day 1.** Working with a Democratic Congress in 1993, he implemented an economic plan that reduced the deficit 63% to $107 billion last year and provided a solid foundation for a robust economic expansion with nearly 12 million new jobs created.
- **Now working with both Democrats and Republicans, the President is delivering the first balanced budget in a generation.**



A Credible But Fair Budget to Finish the Job

The bipartisan balanced budget achieves balance in 2002. Both credible and fair, its components include:

I.) **Major Entitlement Reforms.** Structural and permanent entitlement reforms produce xxx billion of the overall five year budget savings. Medicare and Medicaid are strengthened and modernized:

Medicare

- **Medicare is modernized through a series of structural changes,** including: reforming the way it pays for managed care, expanding health plan options, providing consumers with information to make educated choices, and introducing effective payment systems for fast-growing Medicare services.

- **The structural changes are designed to align the growth of Medicare with that of the private sector.** Per beneficiary spending will be constrained to close to the private sector growth rates, producing $115 billion in savings over five years. These savings, in combination with structural reforms, extends the life of the Medicare Trust Fund for at least a decade.

- **Beneficiaries are protected and preventive benefits are added.** The agreement holds the line on putting premiums to 25% of program costs and improves benefits by adding annual mammograms, diabetes self-management, and colorectal screening.

Medicaid

- **Preserves the federal guarantee of health care coverage for our most vulnerable populations, while, for the first time, introducing incentives in Medicaid to restrain cost growth.** Growth in Medicaid spending per beneficiary will be brought into line with private premium growth. Restrains cost growth, while ensuring the guarantee of quality coverage of this vulnerable population.

II.) **Discretionary Spending is Cut and Capped at Realistic Levels.** Overall discretionary spending is cut $xx over five years from an inflation adjusted baseline. Spending in the year 2002 is cut x% on an inflation adjusted basis. Cuts are significant, but importantly they are realistic, credible, and enforceable.

III.) **Reasonable Tax Cuts.** The agreement includes net tax cuts of xx billion over five years. It includes tax cuts to make it easier for working families to raise their kids and send them to college. The agreement avoids back loaded tax cuts that would have put pressure on deficit as baby boom prepares to retire.

Agreement Promotes President's Priorities

President Clinton was not going to agree to a budget deal that did not include critical investments in education, health care, and the environment. This agreement reflects the President's priorities:

1) Expands educational opportunity

- ✔ Largest Pell Grant increase in two decades - 3.6 million students will get increase.
- ✔ A tax cut to make college more affordable for middle income families.
- ✔ Expansion of Head Start - to achieve goal of 1 million kids in 2002.

2) Expands health coverage for as many as 5 million children.

3) Strengthens environmental protection and enforcement

- ✔ Accelerates Superfund cleanups by almost 500 sites by the year 2000.

- ✔ Expands the Brownfield Redevelopment Initiative to help communities cleanup and redevelop contaminated areas.
- ✔ Boosts environmental enforcement by 9 percent

4) Treats legal immigrants fairly

- ✔ Restores disability and health benefits for legal immigrants who work hard, pay taxes, and will otherwise lose their health care coverage.
- ✔ Restores Medicaid coverage for poor legal immigrant children.

PRESIDENT CLINTON'S HEALTH CARE PRIORITIES FOR WOMEN

- **Strengthens and Preserves Medicare.** The Medicare program primarily serves women, covering 22 million women, nearly 60 percent of all Medicare beneficiaries. It is especially important to older women. There are 13 million women on Medicare who are over the age of 75 and 2.8 million who are over the age of 85 (twice the number of men over 85). The President's budget preserves and improves the Medicare program. It extends the life of the Part A Hospital Insurance Trust Fund into 2007, gives beneficiaries more choices among private health plans, invests in new preventive health benefits.

- **Covers Annual Mammograms Screening for Medicare Beneficiaries.** In his balanced budget, President Clinton proposes to extend annual screening mammograms for Medicare beneficiaries 65 and over. Screening mammograms for women age 65 and over are now covered biennially, even though breast cancer mortality increases with age. This proposal would remove this anomaly in current law and make coverage consistent with the recommendations of most breast cancer experts.

- **Waives Cost-Sharing for Mammography Services.** The plan eliminates the copayment and deductible requirement for annual mammograms for beneficiaries over age 50, thereby increasing early detection and treatment of breast cancer. Although Medicare has covered screening mammography since 1991, only 14 percent of eligible beneficiaries without supplemental insurance receive mammograms.

- **Provides Alzheimer's Respite Benefit.** Since women make up two-thirds of informal caregivers for elderly in communities, they bear the financial and emotional strain of caring for people with Alzheimer's and other debilitating diseases. The President's budget takes the first step towards helping these families with a new Alzheimer's respite benefit to provide temporary help for families of Medicare beneficiaries with Alzheimer's and other dementia.

- **Prevents Women From Being Forced Out of the Hospital Only Hours After a Mastectomy.** In his State of the Union Address, President Clinton endorsed bipartisan legislation to ensure that women are not forced out of the hospital before they are ready because of pressure from their health plan. The Department of Health and Human Services also recently announced that it was sending a letter to all Medicare managed care plans making clear that they may not set ceilings for inpatient hospital treatment or set requirements for outpatient treatment, and that a woman and her doctor should make decisions about what is medically necessary.

- **Continues HHS Commitment to Breast Cancer Research, Prevention and Training.** Since the Clinton Administration has taken office, funding for breast cancer research, prevention and treatment has nearly doubled, from about $276 million in FY 1993 to over $500 million in the President's FY 1998 budget. This includes money for breast cancer screening as well as **the NIH-funded discovery of two breast cancer genes -- BRCA-1 and BCRA-2 -- which holds great promise for the development of new prevention strategies.**

- **Combats Violence Against Women.** Millions of women throughout our nation are plagued by the terror of family violence. Approximately 20 percent of all emergency room visits by women result from domestic violence. The President's FY 1998 budget proposes $381 million to combat gender-based crime -- an $123 million increase. This money funds grants to facilitate coordination among law enforcement officials, prosecutors, and victims assistance programs and to encourage mandatory arrest policies. Studies have shown that mandatory arrest policies often break the cycle of violence and reduce subsequent incidences of violence.

- **Funds Full Participation in Women, Infants, and Children (WIC).** WIC provides nutritional assistance, nutrition education and counseling, health and immunization referrals, and prenatal care to those who would otherwise not get it. WIC participation has grown by 25% over the last four years and will serve 7.5 million by 1998, fulfilling the President's goal of full participation.

- **Prevents and Treats AIDS Through the Ryan White CARE Act.** The incidence of AIDS has increased far more rapidly among women than men. For example, the incidence of AIDS among women in 1994 was 14.4 times that of 1985, while the incidence among men in 1994 was only 5.5 times that of 1985. The President's budget proposes just over $1 billion for activities under the Ryan White CARE Act which funds grants to cities and States to help finance medical and support services for individuals with HIV; to community-based clinics for early HIV intervention services; to pediatric AIDS; and to HIV education and training programs. The budget also includes $167 million dedicated to AIDS drug assistance programs to improve access to protease inhibitors and other life-extending AIDS medications.

BUDGET ROLLOUT:
A Strategic Plan for the Day of the Budget Agreement

The purpose of this document is to spell out our budget rollout strategy and the key tasks that must be completed in the hours and days following the completion of a budget agreement. A detailed action plan containing a more precise set of activities will follow.

STRATEGIC GOALS

✔ **Show How We Won.** Stress how the deal meets the President's priorities: a balanced budget that protects education, environment, Medicare, Medicaid and helps move people from welfare to work.

✔ **Establish Deal's Credibility.** Obtain bipartisan validation for the agreement

✔ **Conduct Any Damage Control.** Reach out to traditional Democratic and progressive constituencies, such as labor, seniors, and minority groups; bring Congressional Democrats into the fold

PRE-AGREEMENT ACTIVITIES

Make Decision on POTUS Announcement

Format Options:
1. POTUS alone
2. POTUS and VPOTUS
3. POTUS, VPOTUS, and bipartisan leadership
4. POTUS, VPOTUS, and Democratic leadership
5. POTUS, VPOTUS, and budget team

Site Options:
1. Rose Garden statement
2. Short Oval Office address (must ensure nets would carry)
3. Briefing Room with budget team afterwards
4. East Room with full press conference

Brief POTUS and VPOTUS on Game-Plan

Devise and Implement Morning Show Strategy for Day of the Agreement

ACTIVITIES/CALLS FOR DAY OF BUDGET AGREEMENT

PRINCIPAL DE-BRIEF

Huddle top administration talkers and de-brief on final deal, with participants to include: Bowles, McCurry, Sperling, Raines, Rubin, Hilley, Shalala, Emanuel, Summers, Yellen, Mathews, Podesta, Sosnik, Baer, Lewis

BUDGET TEAM (Bowles; Rubin; Raines; Sperling; Hilley; Summers; Yellen; Lew)

First Level Activities/Calls To Shape First Stories on the Overall Deal

➪ Wires and CNN -- reach wires and 24-hour news stations to shape initial stories

- Rahm Emanuel calls John King of Associated Press, Wolf Blitzer at CNN
- Gene Sperling calls Terry Hunt of Associated Press
- Summers calls Brian Williams at MSNBC, Gene Gibbons of Reuters
- Press books surrogates (Raines, Bowles, others) on MSNBC, CNN, FOX

➪ Networks -- hit each level to shape first night's stories and morning chat

- VPOTUS calls anchors: Tom Brokaw, Peter Jennings, Dan Rather, Frank Sesno and/or Bernard Shaw
- Bowles and Raines call correspondents: David Bloom, Rita Braver, John Donvan, and Claire Shipman
- Rubin calls network pundits: Tim Russert, Cokie Roberts, Bob Schieffer
- Hilley calls Hill correspondents: Lisa Myers, John Cochran
- Yellen calls CNBC, FOX, and CNNfn.

➪ Calls to Other Reporters

- Emanuel calls White House political reporters: John Harris (Post), Alison Mitchell (NY Times), and Mike Frisby (WSJ)
- Sperling calls budget reporters: Dick Stevenson (NY Times), Clay Chandler (Post), Jackie Calmes (WSJ), Bill Nichols (USA Today), and Janet Hook (LA Times)
- Hilley calls congressional budget reporters: Eric Pianin (Post); Christopher Georges (WSJ), David Rogers (WSJ), Adam Clymer (NY Times)

➪ Call Our Outside Talkers -- Ann Lewis coordinates calls to key outside talkers; fax them our talking points

- Emanuel calls Stephanopolous

➪ Make Political Calls -- Sosnik coordinates; fax them talking points

First Level Activities/Calls To Establish Deal's Credibility

➪ Call Key Validators

- POTUS or VPOTUS calls Panetta
- Raines calls Bob Reischauer; Tim Penny
- Summers calls Henry Aaron; Charlie Schultz
- Rubin calls Alan Greenspan; Pete Peterson
- POTUS/Bowles calls Sam Nunn; Warren Rudman
- Sperling calls Bob Greenstein
- Lew calls Martha Phillips, Carol Cox, Van Ooms, Rudy Penner

➪ Call Economist Validators

- Yellen calls key economists: Roach; Levy; Sinai

Second Level Activities/Calls for Later in the Day

➪ Big Foot Reporters -- shape opinion leader stories

- Summers calls Johnny Apple (NY Times), David Broder (Washington Post), and Al Hunt (WSJ)
- Sperling calls Alan Murray (WSJ) and Susan Page (USA Today)
- Lew calls Ron Brownstein and Jack Nelson (LA Times) and Mark Memmott (USA Today).

➪ Editorial Boards -- ensure first editorials at opinion-leader papers are solid.

- Sperling calls Weinstein (NY Times) and Peter Milius (Washington Post)
- Yellen calls editorial boards at LA Times and USA Today

➪ White House Beat Reporters -- background on deal; handle tough Q & A

- POTUS statement in briefing room

- Rubin, Raines, Hilley, and Sperling brief White House reporters

➪ Calls to Pundits -- Don Baer coordinates

- Ann Lewis, Mike McCurry, Rahm Emanuel, Sylvia Mathews, John Podesta, and others make calls.

➪ Reach Weekend Pundits -- shape weekend chat shows

- Push weekend shows for full treatment and offer top talkers (VPOTUS, Bowles)
- Bowles, Rubin, Sperling and Raines hold Roosevelt Room briefing
  - -- McCurry and Baer to coordinate
  - -- Participants would include major columnists and that week's participants on weekend shows.

- NEC gets paper on agreement to weekend show producers/anchors

➪ Reach Magazine Writers and Columnists

- Summers calls Washington editors of weeklies: Michael Duffy (Time), Jim Fallows (US News), Evan Thomas (Newsweek), and Owen Ullman (Business Week -- **note Wednesday morning deadline)**
- Summers calls Gerry Seib (Wall Street Journal)
- McCurry and others brief White House magazine reporters
- Lew calls Matt Miller (US News), Joe Klein (New Yorker) and Frank Rich (NY Times)
- Yellen calls Robert Samuelson (Newsweek), Peter Passell (Times), Jonathan Alter (Newsweek) and Bob Herbert (New York Times)
- Emanuel calls E.J. Dionne (Post) and Maureen Dowd (NY Times)

➪ Radio

- Raines calls Mara Liasson with National Public Radio
- McCurry does radio network roundtable

➪ Call Additional Outside Talkers -- Ann Lewis coordinates

- Former Administration: Tyson; Bentsen; Cisneros; Reich
- Romer; From; and others

➪ Satellite Feeds -- McHugh begins to set up satellite interviews for budget team into targeted markets for next two days

<u>CABINET ROLLOUT</u> (Higgins; Silverman; McHugh)

First Level Activities/Calls

- Cabinet Affairs faxes talking points and Q&A on agreement to all Cabinet members and subcabinet
- Cabinet Affairs sets up <u>two conference calls</u>:

  -- Conference call ASAP with all Cabinet members and Chiefs of Staff
  -- Conference call later in the day with agency communications directors

- Lew, Baer, Higgins brief Cabinet members and Chiefs of Staff on budget agreement on first conference call
- Silverman and McHugh compile list of key media markets (to be assigned to the Cabinet on conference call with agency communications directors later in the day)

Second Level Activities/Calls

- Haas, Lewis, McHugh, Silverman brief agency communications directors on budget message, markets, and rollout strategy on second conference call
- Cabinet members make initial press calls to radio/dailies in targeted markets

<u>GOVERNORS AND MAYORS</u> (Hale)

First Level Activities/Calls

- Hale first calls Gov. Romer and Mayor Archer; sets up Sperling to brief them
- Organize additional conference call for five key governors and ten key mayors
- Provide specific one-pager to governors and mayors on major issues, including Medicaid per capita cap
- Sperling and Lew brief governors and mayors on budget agreement

<u>CONSTITUENCIES: Labor, Minority and Ethnic</u>

First Level Activities/Calls

➪ <u>Call Major Labor Leaders</u> -- Podesta to coordinate calls regarding overall budget agreement; paper faxed to appropriate labor leaders

➪ Other Calls

- VP/Bowles calls Jesse Jackson
- Herman calls Kweisi Mfume
- Echaveste/Pena call Univision News, Hispanic dailies, Dallas Morning News, Houston Chronicle, and other media outlets regarding progress on legal immigrants

Second Level Activities/Calls

- Podesta coordinates additional labor calls
- Echaveste/Pena call other media outlets regarding progress on legal immigrants

HEALTH CARE TEAM (Shalala; Jennings; Min; Vladeck; Lambrew)

First Level Activities/Calls

➪ Call Key Health Reporters -- regarding Medicare, Medicaid, structural reforms, Social Security, and children's health

- Pear (Jennings)
- Chen (Vladeck)
- Hasson (Jennings)

➪ Call Major Health Care Groups

note Rother
- AARP (Bowles)
- AHA (Shalala)
- AMA (Shalala; Min)

➪ Call Key Electeds and Constituency Leaders

- Call Gov. Chiles and Gov. Dean

Second Level Activities/Calls

➪ Call Additional Health Care Groups

- APPWP (Jennings)
- CHA (Min)

- American College of Physicians (Jennings)
- National Council on Aging (Jennings)

➪ Call additional health reporters

➪ Other team members and OPL begin to set up briefings for next two days with health care groups, women's groups, and constituency leaders

<u>EDUCATION TEAM</u> (Riley; Smith; Cohen; Shireman)

First Level Activities/Calls

➪ <u>Call Education Leaders</u> -- on higher education tax cuts, Pell Grants, and El-Sec

- Gov. Miller
- Barry Munitz (Smith)
- Stan Ikenberry (Riley)
- Ed Elmendorf (Smith)
- Ed Kealy (Riley)
- David Pierce (Riley)
- David Warren (Riley)

➪ <u>Call Key Education Reporters</u>

- Robert Greene, <u>AP</u> (Smith)
- Richard Whitmire, <u>Gannett</u> (Smith)
- Paul Nyhan, <u>Bloomberg</u> (Smith)

Second Level Activities/Calls

➪ <u>Call Additional Education Leaders</u>

- Stewart (Smith)
- Ambach (Smith)
- Pierce (Riley)

➪ <u>Call Additional Education Reporters</u>

- Feldmann and Walters, <u>Christian Science Monitor</u> (Smith, Shireman)
- Applebome, <u>NY Times</u> (Smith, Shireman)
- Kronholz, <u>WSJ</u> (Smith, Shireman)

- Sanchez, W Post (Smith, Shireman)
- Innerst, W Times (Smith, Shireman)
- Henry, USA Today (Smith, Shireman)
- Colvin and Shogren, LA Times (Smith, Shireman)

➪ Other team members and OPL begin to set up briefings for next two days with education groups

WELFARE TEAM (Reed; Apfel; Shalala)

First Level Activities/Calls

➪ Call Key Leaders -- in urban, immigrant, and welfare communities

- Hugh Price (Reed)
- Patricia Ireland (Shalala)
- Cecilia Munoz (Shalala)
- Sharon Daly (Shalala)

➪ Call Key Reporters

- DeParle at NY Times (Reed)
- Constable at W Post (Reed)
- Milbank at WSJ (Shalala)
- Ellis at LA Times (Apfel)
- Wolf at USA Today (Shalala)

Second Level Activities/Calls

➪ Call Other Key Leaders -- in urban, immigrant, and welfare communities

- Bernstein (Shalala)
- Daly (Shalala)
- Aviv (Shalala)

ACTIVITIES/CALLS FOR TWO DAYS POST-AGREEMENT

BUDGET TEAM

➪ Next Day's Morning Shows

- VPOTUS and Bowles on network morning shows
- Sperling, Raines, and Rubin on morning radio-talk shows

➪ Satellite Feeds -- Team conducts satellite interviews into targeted markets (Bowles; Rubin; Raines; Sperling)

CABINET ROLLOUT

- Cabinet members implement budget rollout strategy, hitting targeted markets by traveling or conducting press calls

GOVERNORS AND MAYORS

- Intergovernmental sets up conference call with remaining Democratic governors and additional mayors
- Sperling, Lew brief governors and mayors on budget agreement

CONSTITUENCIES: Labor, Minority and Ethnic

- Meetings at Labor Department with labor groups regarding budget agreement
- Hold briefings with minority and ethnic leaders regarding overall budget agreement

HEALTH CARE TEAM

- Team holds briefings for health groups, women's groups, and constituency leaders
- Team conducts conference calls with regional health care groups

EDUCATION TEAM

➪ Call News Magazines

- Wingert, Newsweek (Riley)
- Blackman, Time (Riley)
- Toch, US News (Riley)
- Katz, CQ (Smith)
- Stanfield, National Journal (Shireman)

➪ Team holds briefings for education groups

➪ Riley conducts conference call/press conference with college newspapers

WELFARE TEAM

- Hold briefings for leaders in urban, immigrant, and welfare communities

11

Briefing

Cabinet briefing at 3

Donna Shalala - hc.

Marcia Hale → per capita cap
where as
we

(head start

Kids health care

growth rates declined

Savings used to target

federal financing of coverage for children, legal immigrants,

Use DSH saving → $ to people need for

reduce uncompensated care

Sustained decline

These as well as other savings invested in this population)

OFFSETS TO PAY FOR NEW INITIATIVES WITHIN PRESIDENT CLINTON'S CBO-CERTIFIED BALANCED BUDGET

Offsets	Savings
Increase Hart Scott Rodino merger filing fees based on firm size	$0.420 billion
Corporate Subsidies: Replace Sales Source Rules with activity-based rule	$5.300 billion
Tighten the Substantial Understatement Penalty	$0.200 billion
Replace Single-Family Loan Limit with Freddie Mac Limit	$0.200 billion
Relax the Restriction on FHA Multifamily Property	$0.080 billion
Charge vendors for cost of making payments by paper check	$0.070 billion
Reduce corporate jet subsidies	$0.541 billion
Deny dividends-received deduction (DRD) for portfolio preferred stock	$0.200 billion
Synthetic Fuel Production Credit	$0.475 billion
Repeal Medicare/Medicaid Fraud Loopholes	$0.470 billion
New Spectrum	$0.500 billion
Total	**$8.456 billion**

OFFSETS

1. INCREASE HART SCOTT RODINO MERGER FILING FEES

Revenues: $420 million over 6 years

Description: The FTC and DOJ's Antitrust Division share about $120 million/year in fees that are paid by firms filing for merger under the Hart Scott Rodino Act; the rest of their budgets are funded through appropriations. Firms that are now required to file pre-merger notification are assessed a flat fee of $45,000. This increase would restructure the fees to: $25,000 for entities with total assets of under $100 million (i.e., a reduced fee for small mergers); $55,000 for entities with total assets of between $100 million and $500 million; and $95,000 for entities with total assets of over $500 million. The fees now offset discretionary appropriations, but an increase could produce mandatory savings.

This would ensure that users fully pay for the Government's costs of Hart Scott Rodino activities. Thus, general taxpayers would no longer subsidize the Federal review of mergers.

2. Replace Sales Source Rules with Activity-Based Rule

Revenues: $5.3 billion over 6 years

Description: The President's new proposal would limit the ability of multinational corporations to decrease their U.S. tax liability inappropriately, by reducing the amount of export sales income that they may treat as derived from foreign sources. Under current law, the sales source rule generally permits multinational corporations that also export U.S. products to treat half of their export profits as income from sales activities, and therefor as foreign source income, even though the economic activity that produced the export profits may have occurred entirely within the United States.

The proposal eliminates the 50-50 default rule for allocating export income between domestic production and foreign sales activities. Under the proposal, the allocation will be based on actual economic activity. In addition, the proposal does not affect the special tax rules that generally apply to the export of natural resource property.

Revenues: $200 million over 6 years

Description: Currently, taxpayers may be penalized for erroneous, but non-negligent, return positions if the amount of the understatement is "substantial" and the taxpayer did not disclose the position in a statement with the return. "Substantial" is defined as 10 percent of the taxpayer's total current tax liability, but this can be a very large amount even for very large corporate taxpayers. This has led some large corporations to take aggressive reporting positions where huge amounts of potential tax liability are at stake -- in effect playing the audit lottery -- without any downside risk of penalties if they are caught, because the potential tax still would not exceed 10 percent of the company's total tax liability. To discourage such aggressive tax planning, the proposal would consider any deficiency greater than $10 million to be "substantial" for purposes of the substantial understatement penalty, whether or not it exceeds 10 percent of the taxpayer's liability. The proposal would thus affect only taxpayers that have tax liabilities of $100 million or more.

4. **Replace Single-Family Loan Limits with Freddie Mac Limit**

Revenue: $200 million over 6 years

Description: Currently, the Federal Housing Administration (FHA) is authorized to insure mortgages that are not more than 95 percent of the area median house price, subject to a $155,250 ceiling and a $73,000 floor. This would replace these limits with the $207,000 Freddie Mac loan limit, allowing FHA to compete for business that the private market now services.

In most places, FHA insures mortgages that are below 95 percent of the area median house price. Raising the limit to the Freddie Mac level would increase homeownership opportunities for homebuyers who are now constrained by the FHA mortgage limits and often cannot meet the higher downpayment requirements for a conventional mortgage. A higher limit also would increase FHA's guaranteed loan volume and the amount of receipts generated from fees.

5. **Relax the Restriction on FHA Multifamily Property Disposition and Loan Sales**

Revenues: $80 million over 6 years

Description: FHA faces various restrictions when it tries to sell properties or mortgages. For example, states and localities have the right to veto property sales and arrange to buy the properties themselves. Also, with limited exceptions, subsidized housing projects must continue in their configuration. These restrictions complicate the disposition and sales process, delaying receipts and creating large holding costs ($400 per unit per month) while HUD owns properties.

Allowing FHA to relax selected restrictions creates a more flexible and expedited process (the savings estimate assumes that all sales are accelerated by one year). In all cases, HUD will protect the interests of currently assisted low-income tenants by continuing their assistance or providing portable vouchers. This provision was included in the 1996 VA/HUD 1996 Appropriations bill.

Revenues: $70 million over 6 years

Description: This option would require the Secretary of the Treasury to charge a fee to vendors for the continued receipt of payment by paper check.

The Federal Government makes over 40 million check payments to vendors a year. The Debt Collection Improvement Act of 1996 requires a mandatory phase-in of electronic payment for all federal payments by 1999, with the exception of tax refunds. Electronic funds transfer offers a more rapid and secure form of payment. However, for those vendors who would prefer to continue to receive payment by check, this option institutes a fee of $1 per transaction that would be charged for continued receipt of payment by check. This fee would be collected centrally by the check disbursing agencies, principally Treasury and DOD (eliminating any administrative burden to other agencies for collection of the fee). Vendors with existing multi-year contracts will be unaffected by this proposal.

7. **Corporate Jets. Charge Business Jets for the Costs They Impose on the FAA**

Revenues: $541 million over 6 years

Description: Corporate and business turbine aircraft (turbo jets and turbo props) have historically paid a 17.5 cent/gallon excise tax on non-commercial jet fuel. The receipts have covered only 25% of the fully-allocated costs of air traffic services that the FAA provides to these users. Commercial airlines have historically covered the full costs of FAA services through the 10% tax on airline tickets. This proposal would reduce by 50% the subsidy provided to commercial and private corporate turbine aircraft by the year 1999. This new charge would be phased in over three years. Revenue from this charge would be deposited in the airport and airway trust fund. This proposal would charge business and corporate turbine aircraft a $225 per-flight fee.

8. **Dividends-Received Deduction.**

Revenues: $200 million.

Description: Under current law, a 70% dividends received deduction (DRD) is available for U.S. corporations. This percentage deduction is generally increased to 80% if the taxpayer owns at least 20% of the stock of the issuing corporation. (The DRD does not apply to individuals, pension funds, or most mutual funds.) In addition, because closely related corporations are part of the same economic family, a 100% deduction generally applies to dividends from 80% owned subsidiaries.

Under this proposal, the 70% and 80% DRD for certain debt-like preferred stock would be eliminated, effective for stock issued after the date of enactment.

From Coal Facilities (section 29)

Revenues: $475 million.

Description. Currently, section 29 provides a tax credit for the production of nonconventional fuels, e.g., fuels produced from biomass or coal gasification facilities. This credit applied to such facilities placed in services before 1997 pursuant to a binding contract entered into before 1996. The small business bill extended the credit for property placed in service before July 1, 1998 pursuant to a binding contract entered into before 1997. This proposal would not pull back on the binding contract extension (through this year) but would pull back the placed in service requirement by one year, to June 30, 1997.

10. Repeal Medicare/Medicaid Fraud Loopholes.

Revenues: $280 Million

Description. Repeal Section 205 -- Health Care Advisory Opinions which requires HHS and DoJ to issue advisory opinions to providers on whether or not a proposed business venture violates the Medicare and Medicaid anti-kickback statute. The provision leads to costs because it seriously hinders the ability of the HHS Inspector General and the Department of Justice to prosecute providers who have obtained advisory opinions and who actually end up violating the anti-kickback statute (e.g., providers might obtain an advisory opinion under false pretext and then hide behind it to defraud the Medicare program.)

Repeal Section 216 -- Anti-Kickback Exception for Managed Care Plans which creates and exception to the Medicare and Medicaid anti-kickback statute for risk-sharing arrangements (i.e. managed care plans). The classic kickback situation is where a specialist pays a physician for patient referrals. The provision is a coster because the exception is somewhat subject to interpretation, making it possible that "sham" risk sharing arrangement will meet the exception and thereby by able to continue offering kickbacks for referrals.

Repeal Section 231(d) -- Clarification of Level of Knowledge (The "Should Know" versus "Deliberate Ignorance" Standard). Makes it more difficult to impose a civil monetary penalty (CMP) in the Medicare program by increasing the government's burden of proof in CMP cases. The provision leads to costs because anticipated CMP recoveries assumed in the baseline will not be achieved in certain cases where the government cannot meet the new burden of proof.

11. **Auction 18 Ghz Spectrum.**

Revenues. $500 Million.

Description. A portion of the spectrum in the 18 gigahertz band would be auctioned for wireless subscription-based services. This portion of the spectrum could be used to provide wireless services such as high-speed Internet access, voice and data transmissions, and possibly video conferencing services. This spectrum could also be used for personal communications services such as Sprint Spectrum or digital cellular phones. Until recent technological advances, this spectrum had not been commercially valuable. One company active in this band of spectrum has just signed a deal with a major manufacturer to provide the equipment to be able to use this spectrum commercially. The FCC has received hundreds of applications for licenses for this spectrum, and they have recently paused the application process. The FCC is considering an auction to allocate this spectrum.

Dave Document

The President's FY 1998 Budget Health Care Reform Proposals

Preserving and Strengthening Medicare

- **Saves approximately $100 billion over 5 years ($138 billion over six years), modernizes the program, and extends the life of the Trust Fund to 2007.**

Restraining Growth in the Program

- Constrains payments to health plans and providers, such as managed care, hospitals, nursing homes, home health care.

- Extends current law that sets Part B premium at 25 percent of program costs.

- Combats fraud and abuse by enacting new program integrity provisions and by repealing the provisions Congress enacted last year that weaken fraud and abuse enforcement.

Improving Benefits

- Invests in preventive health care such as diabetes management, colorectal screening, annual mammograms without copayments, and increases reimbursement rates for certain immunizations to protect seniors from pneumonia, influenza, and hepatitis.

- Establishes a new respite care benefit to assist families of Medicare beneficiaries with Alzheimer's and related diseases.

- Phases down excessive outpatient copayments to the traditional 20 percent level.

- Adds Medigap protections to increase the security of Medicare beneficiaries.

Modernizing Medicare

- Provides more choices by establishing new private health plans options (such as preferred provider organizations and provider sponsored organizations).

- Establishes market-oriented purchasing for Medicare including: new prospective payment systems for home health care, nursing home care, and outpatient services; competitive pricing authority; and expanded "centers of excellence" to improve quality and reduce costs.

- Addresses flaws in Medicare's current payment methodology for managed care, which combined with a new national minimum floor, will reduce geographical variation in rates.

Protecting and Preserving Medicaid

- **Savings and Investments.** The President's proposal saves, on net, about $9 billion over five years. It would save about $22 billion over five years, but at the same time, it makes about $13 billion in investments in Medicaid, including proposals to expand coverage for eligible children, and changes to last year's welfare reform law.

- **Per Capita Cap.** To stabilize Medicaid growth, the plan includes a "per capita cap," which would constrain the rate of increase in Federal matching payments per beneficiary.

- **DSH.** Under the President's plan, Federal payments for disproportionate share hospitals (DSH) would be tightened and States would have the flexibility to target these payments to a range of essential community providers.

- **Improved State Flexibility.** The plan contains a number of reforms, including: repealing the "Boren amendment" for hospitals and nursing homes; eliminating the Federal waiver process for States opting for managed care; and eliminating a Federal waiver for States moving populations needing long-term care from nursing homes to home- and community-based care.

- **Medicaid and Medicare for Workers with Disabilities.** The plan enables SSI beneficiaries with disabilities to keep their Medicaid when they return to work. It also includes a demonstration program that allows certain SSDI beneficiaries receiving Medicare benefits to maintain their coverage when they return to work.

<u>Expanding Coverage for Workers Who Are In-Between Jobs</u>

- The President's plan includes an initiative to help provide health care coverage for workers who are in-between jobs and their families. This initiative would help an estimated 3.3 million Americans, including 700,000 children. This initiative invests $9.8 billion over five years.

- The plan helps working families continue health insurance coverage, building on Kassebaum-Kennedy's protections against pre-existing conditions.

- The plan gives States the flexibility to provide coverage in the way that best meets the needs of their populations.

<u>Expanding Health Care Coverage for Children</u>

- **Children Whose Parents are In-Between Jobs.** This initiative will provide health care coverage for 700,000 children whose parents are in-between jobs.

- **Grants to States to Expand Childrens' Coverage.** The President's budget provides $750 million a year ($3.75 billion over five years) to States to develop innovative programs to provide coverage to children.

- **Investments in Medicaid to Expand Coverage.** The plan expands coverage for children by investing in Medicaid. It:

  - Gives States the option to extend one year of continuous Medicaid coverage to all children who are determined eligible for Medicaid.

  - Proposes to work with States and the private sector to reach out to the three million children who are eligible but not enrolled for Medicaid.

HIGHLIGHTS OF THE PRESIDENT'S MEDICARE REFORM PLAN

Medicare Savings	Approximately $100 billion over 5 years; $138 billion over 6 years.
Medicare Trust Fund	Extends the solvency of the Trust Fund to 2007 through a combination of scorable savings and programmatic and structural changes.
Beneficiary Provisions	Extends current law that sets Part B premium at 25 percent of program costs. This policy achieves $10 billion in savings over 5 years. The Part B premium would go below this percentage without this change after 1998; the expenditures associated with the reallocation of some home health expenditures are excluded from this calculation.
	Invests in preventive health care to improve seniors' health status and reduce the incidence and costs of disease. The plan covers colorectal screening, diabetics management, and annual mammograms without copayments, and it increases reimbursement rates for certain immunizations to ensure that seniors are protected from pneumonia, influenza, and hepatitis.
	Establishes a new Alzheimer's respite benefit starting in 1998 to assist families of Medicare beneficiaries with Alzheimer's and related diseases.
	Buys down excessive outpatient copayments to the traditional 20 percent level. Because of a flaw in reimbursement methodology, beneficiaries now in effect contribute a 46 percent copayment. Our policy will prevent further increases in copayments and reduce the copayment to 20 percent by 2007.

Adds Medigap protections (such as new open enrollment requirements and prohibitions against the use of pre-existing condition exclusions) to increase the security of Medicare beneficiaries who wish to opt for managed care but fear they will be unable to access the Medigap policy of their choice if they decide to return to the fee-for-service plan. (This provision is consistent with bipartisan legislation pending before Congress.)

Provides new private plan choices (through new PPO and Provider Service Organization choices) for beneficiaries.

Provider Impact

Hospitals

Through a series of traditional savings (reductions in hospital updates, capital payments, etc.), achieves about $33 billion in savings over 5 years.

Establishes new provider service organization (PSOs), which will allow hospitals (and other providers) to establish their own health care plans to compete with current Medicare HMOs.

Establishes a new pool of funding, about $11 billion over 5 years for direct payment to academic health centers to ensure that academic health centers are compensated for teaching costs. This is funded by carving out medical education and disproportionate share (DSH) payments from the current Medicare HMO reimbursement formula.

Managed Care

Through a series of policy changes, the plan will address the flaws in Medicare's current payment methodology for managed care. Specifically the reforms will create a national floor to better assure that managed care products can be offered in low payment areas, which are predominantly rural communities. In addition, the proposal includes a blended payment methodology, which combined with the national minimum floor, will dramatically reduce geographical variations in current payment rates. Medicare will reduce reimbursement to managed care plans by approximately $34 billion over 5 years. Savings will come from three sources:

(1) Because HMO payments are updated based on projections of national Medicare per-capita growth, when the traditional fee-for-service side of the program is reduced, HMO payments are reduced. The savings from this is $18 billion over five years;

(2) The elimination of the medical education and DSH payments from the HMO reimbursement formula (these funds will be paid directly to academic health centers). Savings from this proposal are $9 billion over five years; and

(3) A phased-in reduction in HMO payment rates from the current 95 percent of fee-for-service payments to 90 percent. A number of recent studies have validated earlier evidence that Medicare significantly overcompensates HMOs. The reduction does not start until 2000 and it accounts for a relatively modest $6 billion in savings over 5 years.

Home Health Care

Saves about $14 billion over 5 years through the transition to and establishment of a new prospective payment system.

Home Health Expenditure Reallocation

Home health care has become one of the fastest growing components of the Medicare program, growing at double digit rates. Originally designed as a post-acute care service under Part A for beneficiaries who had been hospitalized, home health care has increasingly become a chronic care benefit not linked to hospitalization. The President's proposal restores the original split of home health care payments between Parts A and B of Medicare. The first 100 home health visits following a 3-day hospitalization would be reimbursed by Part A. All other visits -- including those not following a hospitalization -- would be reimbursed by Part B.

The restoration of the original policy will not count toward the $100 billion in savings in the President's plan. The policy avoids the need for excessive reductions in payments to hospitals, physicians, HMOs, and other health care providers while helping to extend the solvency of the Part A Trust Fund.

See additional provisions under Fraud and Abuse which save $1.3 billion over five years.

Physicians

Saves about $7 billion over 5 years through a modification of physician updates. This reduction is relatively small because Medicare has been relatively effective in constraining growth in reimbursement to physicians.

Skilled Nursing Facilities

Saves about $7 billion over 5 years through the establishment of a prospective payment system.

Fraud and Abuse

Saves about $9 billion over 5 years through a series of provisions to combat fraud and abuse in areas such as home health care, by requiring insurers to provide information about insurance coverage of beneficiaries, and by repealing the provisions Congress enacted last year that weaken fraud and abuse enforcement.

Structural Reform

Brings the Medicare program into the 21st century by:

(1) Establishing new private health plan options (such as PPOs and Provider Service Networks) for the program;

(2) Establishing annual open enrollment for all Medicare plans within independent third-party consumer consulting.

(3) Establishing market-oriented purchasing for Medicare including the new prospective payment systems for home health care, nursing home care, and outpatient hospital services, as well as competitive bidding authority and the use of centers of excellence to improve quality and cut back on costs;

(4) Adding new Medigap protections to make it possible for beneficiaries to switch back from a managed care plan to traditional Medicare without being underwritten by insurers for private supplemental insurance coverage. This should encourage more beneficiaries to opt for managed care because it addresses the fear that such a choice would lock them in forever.

Rural Health Care

The plan will have a very strong package of rural health care initiatives, including continuation and improvement of sole community hospital, Medicare dependent hospital, and rural referral center protections. the expansion of the Rural Primary Care Hospital program that allow for designation of and reimbursement to facilities that are not full-service hospitals, and the modification of managed care payments to ensure they are adequate for rural settings. The rural hospital investment alone is $1 billion over 5 years.

Medicare for Workers' with Disabilities

The President's budget authorizes a demonstration which enables SSDI beneficiaries to return to work without losing their health care coverage. Under the demonstration, certain SSDI beneficiaries who return to work would be able to maintain their Part A coverage.

HIGHLIGHTS OF THE PRESIDENT'S MEDICAID REFORM PLAN

Medicaid Savings and Investments

The President's plan saves approximately $9 billion net of new investments over 5 years.

Through a combination of policies to reduce and target spending on disproportionate share hospitals (DSH) more effectively and establish a per-beneficiary limit on future Medicaid growth, the plan would save $22 billion over five years.

Roughly two-thirds of the savings comes from a reduction in Disproportionate Share Hospital (DSH) payments and roughly one-third from the per capita cap.

In addition, the President's plan invests $13 billion in improvements to Medicaid, including health initiatives to expand coverage for children, changes to last year's welfare reform law, and new policies to help people with disabilities return to work.

Guarantee of Coverage

The 37 million children, pregnant women, people with disabilities, and older Americans who are currently covered by Medicaid would retain their Federal guarantee of health care coverage for a meaningful set of benefits.

Per Capita Cap

Even though the overall Medicaid baseline has fallen over the past few years, Medicaid spending growth is still expected to increase by over 8 percent annually after the year 2000. To stabilize Medicaid growth, the President's budget would set a per capita cap on Medicaid spending. The cap would constrain the rate of increase in Federal matching payments per beneficiary.

The per capita cap protects States facing population growth or economic downturns because it ensures that Federal dollars are linked with beneficiaries.

DSH Payments

Federal DSH payments would be tightened without undermining the important role these funds play for providers that serve a disproportionate number of low-income and Medicaid beneficiaries.

Improved State Flexibility

The President's plan incorporates the highest-priority State flexibility requests advocated by the National Governors' Association. It:

- Repeals the "Boren amendment" for hospitals and nursing homes, to allow States more flexibility to negotiate provider payment rates;
- Eliminates Federal waiver process for States opting for managed care; and
- Allows States to serve people needing long-term care in home- and community-based settings without Federal waivers, and a number of other initiatives.

Improves Quality Standards

The President's plan maintains existing Federal standards and enforcement for nursing homes and institutions for people with mental retardation and developmental disabilities. Quality standards for managed care systems would be updated and enhanced.

Expanded Coverage for Children

The President's plan includes measures to enhance coverage for Medicaid-eligible children. It:

- Provides continuous coverage for children: The President's budget provides States with the option to extend 12 months of continuous Medicaid coverage, guaranteeing more stable coverage for children and reducing the administrative burden on Medicaid officials, providers, and families.

- Encourages outreach to help more children receive Medicaid: The Administration will work with States to develop innovative ways to reach and sign up for Medicaid some of the 3 million children who are eligible for Medicaid but are not currently enrolled.

Modifications to Welfare Reform Law

The President's plan includes provisions to ameliorate some of the effects of the welfare reform law, including:

- Exempting disabled immigrants from the ban on SSI benefits to ensure they retain their Medicaid benefits.
- Exempting immigrant children and disabled immigrants from the bans on Medicaid benefits for immigrants, and from the new "deeming" requirements that mandated that the income and resources of an immigrant's sponsor be counted when determining program eligibility.
- Extending from 5 to 7 years the exemption from the Medicaid bans and deeming requirements for refugees and asylees.
- Retaining Medicaid coverage for disabled children currently receiving Medicaid who lose their Supplemental Security Income (SSI) benefit because of changes in the definition of childhood disability.

Provision to Help Workers with Disabilities

The President's plan recognizes that many people with disabilities want to work but they face significant barriers. The plan would help people with disabilities return to work risking their health care coverage. As a State option, SSI beneficiaries with disabilities who earn more than certain amounts could keep Medicaid. They would contribute to the cost of coverage on their income rises.

HIGHLIGHTS OF THE PRESIDENT'S INITIATIVES TO MAINTAIN AND EXPAND WORKERS' COVERAGE

Because most Americans have employment-based health insurance, health care coverage is often jeopardized for workers who change jobs. In fact, over 50 percent of the uninsured lost their health insurance due to a job change. Many of these uninsured Americans are the spouses and children of workers. The President's initiative will provide temporary premium assistance to families with workers who are in-between jobs. For millions of these workers and their families this assistance could make it possible for them to maintain their health care coverage while looking for another job. This initiative is fully paid for within the President's FY 1998 balanced budget plan. In addition, to assist small businesses -- which often have more difficulty providing and maintaining health care coverage for their workers -- the President has proposed to help States create voluntary purchasing cooperatives.

Funding

Invests $9.8 billion over the budget window and is paid for in the President's FY1998 balanced budget.

Eligibility

Helps an estimated 3.3 million Americans in 1998, including about 700,000 children.

- A full subsidy would be provided up to 100% of the poverty level for and would be phased out at 240% of the poverty level.
- To assure that limited federal dollars are cost-effectively targeted, individuals who are eligible for Medicare, Medicaid or who have an employed spouse with coverage, are not eligible for this program.
- While low-income workers would certainly be helped by this benefit, over half of participants would come from families who previously had incomes over $30,000, for a family of four.

Coverage for Families of Workers Who Are In-Between Jobs

Helps to assure that Kassebaum-Kennedy protections against pre-existing conditions are not placed at risk because of breaks in insurance coverage. It achieves this goal by helping working families retain their health coverage through premium assistance during a time in which they lose much of their income.

Gives States the flexibility to provide coverage in ways that best meets the needs of their populations. States would have flexibility to administer their own programs, (e.g., COBRA, a private insurance product, Medicaid, or an alternative means of coverage).

Voluntary Purchasing Cooperatives

Small businesses have more difficulty providing health care coverage for their workers because they have higher per capita costs due to increased risk and because of extraordinarily high administrative costs.

The President's budget will make it easier for small businesses to provide health care coverage for their employees, by allowing them to band together to reduce their risks, lower administrative costs, and improve their purchasing power with insurance companies.

His budget proposes to empower small businesses to access and purchase more affordable health insurance through the use of voluntary health purchasing cooperatives. This will be accomplished by providing $25 million a year in grants that States can use for technical assistance, by setting up voluntary purchasing cooperatives, and by allowing these purchasing cooperatives to access to Federal Employees Health Benefit Plans.

HIGHLIGHTS OF THE PRESIDENT'S CHILDREN'S HEALTH INITIATIVES

In 1995, more than 10 million American children had no health insurance. Eighty percent (8 million) of the ten million uninsured children have a parent who is a worker. Many uninsured children have parents who earn too much for Medicaid but too little to afford private coverage, and an estimated three million children are eligible, but not enrolled in Medicaid. The President's plan helps these groups of uninsured children by working with States, communities, advocacy groups, providers, and businesses to expand coverage. Combined with the scheduled Medicaid phase-in of older children, HHS estimates that the President's plan would provide coverage for as many as five million children by the year 2000.

Assistance for Children Whose Parents Are In-Between Jobs

The President's plan includes an initiative to assist workers who are in-between jobs and their families maintain health coverage. The program will cost $9.8 billion over five years, and will help an estimated 3.3 million Americans, including 700,000 children.

This initiative provides funding to States to cover the children of workers who are temporarily in-between jobs. The program would help those families who had employer-based coverage in their prior jobs.

The plan would give States flexibility to administer their own programs (e.g., through Medicaid, COBRA, or an independent program).

Grants to States to Expand Children's Coverage

The President's plan provides $750 million a year in grants to States ($3.8 billion over FY 1998-2002) that will build on successful State children's programs like those in Pennsylvania, Washington, Minnesota, and Florida, to identify and provide coverage for uninsured children.

Under the President's plan, States could work with insurers, providers, employers, schools, and others to develop innovative programs to provide coverage to children.

In addition to covering children who fall through the gaps, these new State grants may help identify and enroll children eligible for Medicaid.

Investments to Expand Medicaid Coverage

The President's plan invests in Medicaid to provide better coverage for eligible children. It:

Provides one year of continuous Medicaid coverage to children. The President's budget give States the option to extend 12 months of continuous Medicaid coverage to all children who are determined eligible for Medicaid.

Currently, many children receive Medicaid protection for only part of the year. This is because Federal law requires that a family that has a change in income or some other factor affecting eligibility report it immediately, possibly making them ineligible for Medicaid.

This provision will benefit families who will have the security of knowing that their children will be covered by Medicaid for a full year. It will also help States by reducing administrative costs, and managed care plans, by enabling them to better coordinate care.

Encourages outreach. The President's plan proposes to work with the States, communities, advocacy groups, providers, and businesses to extend Medicaid coverage to the three million children who are eligible for Medicaid but are not currently enrolled.

UNITED STATES SENATE
Committee on the Budget

Date: 5/12 **Time:** ~~[illegible]~~ 12:15

To: Chris Jennings

Fax: 456-5557

From: *Sue Nelson*

Phone Number: (202) 224-0560

Fax Number: (202) 228-3898

Pages to Follow: 5

Description of Document:

Did you go to the Taylor fair? It was great — Sue

FY 1998 BUDGET RESOLUTION
FUNCTION 570: MEDICARE

SPENDING SUMMARY
($ billions)

		1997	1998	1999	2000	2001	2002	Total 98-02
Bipartisan Budget Agreement	BA	190.8	200.1	211.1	221.8	236.2	251.5	1120.6
	OT	191.3	200.2	210.6	225.8	231.4	250.7	1118.5
Budget Resolution Baseline	BA	190.8	208.1	229.0	248.5	269.1	292.2	1246.9
	OT	191.3	208.2	228.5	252.5	264.2	291.4	1244.8
Freeze Baseline	BA	190.8	208.0	228.8	248.2	268.6	291.5	1245.0
	OT	191.3	208.1	228.3	252.1	263.7	290.7	1243.0
President's Request as	BA	190.8	205.4	219.0	230.6	246.4	262.8	1164.2
Reestimated by CBO	OT	191.3	205.5	218.4	234.6	241.6	262.0	1162.1
President's Alternative	BA	190.8	205.4	219.0	230.6	246.3	256.2	1157.5
Budgetary Policies	OT	191.3	205.5	218.4	234.6	241.5	255.4	1155.4
Bipartisan Budget Agreement								
compared to:	BA	--	-8.1	-17.9	-26.7	-32.9	-40.7	-126.2
Budget Resolution Baseline	OT	--	-8.1	-18.0	-26.7	-32.9	-40.7	-126.3
Freeze Baseline	BA	--	-7.9	-17.6	-26.4	-32.4	-40.1	-124.4
	OT	--	-8.0	-17.7	-26.4	-32.4	-40.1	-124.5
President's Request as	BA	--	-5.3	-7.8	-8.8	-10.2	-11.4	-43.5
Reestimated by CBO	OT	--	-5.2	-7.8	-8.8	-10.2	-11.4	-43.5
President's Alternative	BA	--	-5.3	-7.8	-8.8	-10.1	-4.8	-36.8
Budgetary Policies	OT	--	-5.3	-7.8	-8.8	-10.1	-4.8	-36.8

310
Byrd

FY 1998 BUDGET RESOLUTION
FUNCTION 570: MEDICARE

DESCRIPTION OF BIPARTISAN BUDGET AGREEMENT

Discretionary:

The Bipartisan Budget Agreement (BBA) assumes $XX.X billion for discretionary spending in this function. In 1998, discretionary spending would increase/decrease by $X.X billion in BA and $X.X in outlays compared to the 1997 level, at $2.8 billion in BA and $2.7 billion in outlays.

Mandatory:

Disagree w/ OMB #s.

The BBA reduces Medicare mandatory spending by $115 billion over the five year period and by $434 billion over ten years. These savings, combined with other provisions, are sufficient to maintain solvency in the Hospital Insurance (HI), or part A, trust fund for ten years. The BBA assumes the following major provisions:

- **Medicare Choice/Choice Care:** The BBA assumes significant structural reform of the Medicare program intended to give to promote market competition and give beneficiaries more choices among cost-effective private insurance options, similar to the Federal Employees Health Benefits program available to federal employees and retirees. Medicare beneficiaries would always retain the right to stay in the traditional fee-for-service (FFS) program. The payment methodology for private insurance plans would be reformed to improve cost-effectiveness and address geographic disparities. These provisions are consistent with the Choice Care reforms sponsored by Senator Gregg.

NO

Kill

- **Cost-Effective Reforms in Fee-for-Service (FFS) Provider Payments:** The BBA assumes a large number of reforms in the payment rates for FFS providers, including reductions in: hospital payment updates, indirect and direct medical education payments, disproportionate share hospital payments, hospital capital payments, hospital outpatient payments, payments for skilled nursing and home health services, physician fees, and payments for other providers and services.

FY 1998 BUDGET RESOLUTION
FUNCTION 570: MEDICARE

- **Medicare Secondary Payer**: The BBA assumes the President's proposal to permanently extend the Medicare secondary payer program.

- **25% Part B Premium**: The BBA assumes the President's proposal to hold part B premiums at 25 percent of program costs permanently.

- **Home Health Shift**: The BBA assumes the President's proposal to shift a portion of home health spending into the part B trust fund. The transferred amounts will be phased into the calculation of the 25 percent part B premium over a seven year period. Low income beneficiaries are protected under current Medicaid law from paying higher premiums associated with the President's proposal to extend the 25 percent premium and from the inclusion of the transferred home health spending in the premium. [possible disagreement regarding BBA]

- **New Benefits**: The BBA assumes reform of the coinsurance rate for outpatient services. The mark also assumes expanded mammography coverage, coverage for colorectal screenings, coverage for diabetes self-management, and higher payments to providers for preventive vaccinations.

• STRUCTURAL REFORMS WILL INCLUDE PROVISIONS TO GIVE BENEFICIARIES MORE CHOICES AMONG COMPETING PRIVATE SECTOR INSURANCE OPTIONS (SUCH AS NOW PROVIDED FEDERAL EMPLOYEES AND ANNUITANTS IN THE FEHBP PROGRAM.).

Major Mandatory Programs

Medicare
(outlay savings in billions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Medicare, net	-6.8	-15.0	-24.4	-29.3	-39.5	-115.0	-403.7

private FEHB

Federal HMO standards

that FEHB similar protection standards

- Reduce projected Medicare spending by $115 billion over five years

- Extend the solvency of the Part A Trust Fund ~~to at least 2008~~ at least for ten years through a combination of savings and structural reforms (including the home health reallocation)

- ~~Limit savings from increased beneficiary contributions to~~ Maintain~~ing~~ the Part B premium at 25 percent of program costs and phase in over seven years inclusion in the calculation of the Part B premium the portion of home health expenditures reallocated to Part B, ~~including expanded mandatory benefits under Medicaid for SLMB-eligible~~ Medicare beneficiaries ~~to 150% of poverty, with 100 percent Federal reimbursement~~
  protection would be provided to low-income

?

- Reform ~~managed care~~ payment methodology to ~~address current Medicare overpayment to HMOs~~ improve cost-effectiveness and to address geographic disparity ~~that has limited HMO access in rural areas~~

Why not?

- ~~Reform payment methodology by establishing prospective payment for home health providers, skilled nursing facilities, and outpatient departments~~

OK

- ~~Include policies for competitive pricing for durable medical equipment and laboratory services, and further expand~~ the "~~Centers of Excellence" program~~

why? but ok

?

- Funding for new health benefits including: (1) expanded mammography coverage ~~and lower cost-sharing for mammograms;~~ (2) coverage for colorectal screenings; (3) coverage for diabetes self-management; and (4) higher payments to providers for will be reduced.

(cost of deal

preventive vaccinations. ~~Invest $4 billion over five years (and $20 billion over ten years) to limit~~ beneficiary copayments for outpatient services.

private health insurance coverage

Increase the number of ~~health plan~~ options, ~~by adding provider sponsored organizations and preferred provider organizations,~~ and provide beneficiaries with comparative information about their options.

~~Exclude provisions for: (1) association plans, (2) budget "lookback" mechanisms, (3) proposals that eliminate or weaken current law balance billing restrictions, or (4) medical savings accounts beyond the provisions in the Health Insurance Portability and Accountability Act (HIPPA).~~

May 9, 1997