

Jennifer Klein
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July 11, 1995

Budget Strategy
Memo

F14

MEMORANDUM FOR THE PRESIDENT

THROUGH: Leon Panetta

FROM: Erskine Bowles and Laura Tyson

SUBJECT: Process and Assignments for White House Working Group to Promote the Clinton Budget

The following memo lays out a proposal for the processes and staffing that we will need to set up a "floating war room" to develop and implement a strong attempt to convince the Congress and the American public that we have the best budget for helping working families prosper.

I. OVERALL OBJECTIVES

A. BASIC MESSAGE: The President's budget promotes his economic goals of creating growth, increasing opportunity and raising living standards, and empowering working families to win as a result of economic change. The budget that the President believes best promotes those goals is one that 1) increases national savings while protecting the economic expansion by moving toward fiscal balance in ten years, 2) invests more in key education and training programs, 3) addresses health care in a way that is fair to seniors while moving toward serious health reform, and 4) ensures that our tax system goes further to reward work for working families, instead of asking working families to sacrifice education and Medicare to pay for tax cuts for the most well-off.

B. GENERAL STRATEGY--TAKING OUR CASE TO THE PEOPLE: As the Republicans are in solid control of the Congress, if they go forward with a budget that defies our principles, our only hope for promoting the President's economic growth strategy is to take our case to the American people. *By taking our case to the American people, we will seek to ensure that we prevail if there is an ultimate show-down, or that if there is a early negotiation, it reflects our strength and their movement toward our priorities.*

C. STRATEGIC GOALS: To succeed in taking our case to the American people, so that the American people will take their case to the Republican Congress, we need to demonstrate the following:

- **Make clear we have a balanced budget plan that is the best one for working families.** Only we can make clear that we have a balanced budget plan that is pro-working families. Most others will only start by being against the Republican plan. We are in the strongest of positions: we have a balanced budget plan that shows that we can afford our priorities.

- **Increase leverage for our priorities:** Because the public supports a balanced budget plan that protects Medicare, education and has targeted tax cuts, when we take our case to the people, we will weaken their resolve to stay with an extreme budget, and we will strengthen the President's leverage to get a budget that promotes our priorities.
- **Show we have taken the bold steps toward cooperation, while they have chosen a different path:** Some may say that we are being as stubborn as they are. But we can easily make the case that we took a major step toward providing a framework for bipartisan cooperation through our 10-year balanced budget plan -- and took political heat for it. When we frame the debate this way, it makes clear that they are the ones that have chosen extremism over trying to work together on a reasonable framework.
- **Demonstrate strong commitment to our plan and our priorities:** Republicans want to say that our plan was just a political document with a one-week shelf-life. Only by our energy and our action can we show they are wrong. The depth of our plan will show our conviction and show that we will fight for our priorities.
- **Show the clear pain, problems and wrong priorities of their budget:** We must continue to show the human pain of their plan in ways that people can comprehend, citing the number of people hurt, anecdotes that bring cuts to life, the specific places where projects will be cut, state-by-state and district-by-district analyses, etc.
- **Promote the specific positive proposals of our budget:** We must not forget to show the positive aspects of our proposals. We have exciting new proposals for working Americans, and we must sell them with energy and conviction. We must explain to people our new health care initiatives -- and not just show how painful their Medicare cuts are. The same is true for GI Bill of Rights for Workers, national service, education deduction etc.
- **Make clear that we want open, civil debate; they want to use the threat of trainwreck crisis to push through policies that would be a working families crisis:** If we only say that a trainwreck is bad, then we may unintentionally help build pressure for us to accept a bad budget that they pass. We must make clear that using a debt limit crisis to create a crisis of priorities is not acceptable and a budget that tries to do that should be vetoed.
- **Validate the credibility and support for our plan:** While we must draw clear lines, we must ensure that people see that our plan is real, politically viable, and credible.

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D. THREE PART FRAMEWORK FOR ISSUES:

1) **Main Distinctions:** We must ensure that Americans understand that we have a *clear alternative that is better for the economy and more closely aligned with the interests of working families*. This requires a disciplined focus on the basic message: 1) education and training; 2) Medicare fairness, first steps to health care; 3) tax fairness; 4) economic expansion and the need for a 10-year plan;

2) **Other Priorities:** While we must make clear that there is a main emphasis on the above top priorities, we must take advantage of other priorities that we care about promoting and that can weaken the overall Republican alternative. Key issues that we must also play up include:

- **The environment and consumer safety:** Here, the gutting of environmental and health protections as part of a complete sellout to special interests should be a major focus.
- **Technology:** We need to stress the business support and growth policies behind our technology priorities.

3) **Body Blow Strategy:** Without diluting our main message, we must also facilitate--and certainly not discourage--reasonable efforts that weaken support for their overall approach. There are many issues that are outside our defining message yet are of critical importance to millions of Americans, who will be hurt more than is necessary because of their seven-year path and large tax cut for the well-off. Key parts of the body blow strategy could include: agriculture, veterans, homelessness, AIDS. Every critique in these will be another body blow that will move the public toward our reasonable 10 year plan.

II. WHITE HOUSE BUDGET/ECONOMIC PLAN WORKING GROUP STRUCTURE: INTERNAL PROCESS AND STAFFING

A. WHITE HOUSE WORKING GROUP STRUCTURE: At some point, we may need to have a separate room as there was in health care and the 1993 budget. Until that time, the only way to have a strong and orchestrated campaign for our budget is with the following two things:

1) **Management and Staffing:** We will need clear assignments of people who will run the day-by-day process and clear assignments as to who from each division in the White House will be responsible for the budget. While this may not need to be a full-time assignment, it should be each person's main assignment.

2) Planning Process: Strategy with Long-term Planning and Quick Response:

We must meet regularly to ensure that strategies are developed, coordinated, and executed. We need a budget calendar and budget process that allows us to make strategic short- and long-term plans and achieve some coordination. *Yet we must also have a process that allows us to make quick and even instant decisions. Entering a conflict that puts us on the side of our priorities within a given news cycle will often break through even more than a perfectly planned event.*

3) Combined Internal and External Calendar: It is extremely important that we maintain a comprehensive and up-to-date calendar of budget-related events.

Externally, we need to know what is happening in Congress, from Committee meetings to votes to recesses. Internally, we must have a unified calendar so that we know what everyone is doing on budget related events. Our goal is to ensure that *we have major message events on our defining issues every week at the right times, and that we can make rational decisions about when to do what and where.* A second crucial goal is to ensure general coordination throughout the Administration.

Erskine must have someone who monitors an overall calendar for him, and everyone around the White House must feed into the calendar in a disciplined way.

4) Presidential and Vice Presidential Involvement: While these planning efforts are essential, no part of our plan can work unless there is a strong sense that the President is personally promoting his plan, and drawing the four main distinctions (10 years, education, health care, tax fairness). We must therefore ensure that the budget strategy is linked tightly to Presidential and Vice Presidential scheduling and that where we do have Presidential events, we can build all of the other elements around that strategy.

B. IMPLEMENTATION/MANAGEMENT MEETINGS:

Erskine Weekly Planning Meeting and Twice-a-Week Check-In: Erskine would call all of the representatives from the different divisions together two or three times a week, with one meeting for longterm planning. One key goal of these meetings must be to prioritize communications strategy so that Mark Gearan, Lorrie McHugh and others know where they should be directing their efforts.

Daily Management Check-In: Decisions are made and key discussions take place at the 7:30 a.m. meeting and at Leon's evening meeting. Gene and Erskine should try to have at least two check-in meetings a day, with Gene providing a clear list of decisions that have to be made or considered for the next day. When possible George, Laura, John Angell, Jack Quinn, Alice or Jack Lew, Carol Rasco and the designee from the DNC could also be part of check-in meetings.

Daily Check-in with OMB/COS/VPOTUS/Treasury: To ensure that the campaign is coordinated closely with OMB, Gene would keep contact with **Jack Lew** and **John Angell** and **Jack Quinn** and **Mike Barr** at all times to ensure coordination and that **Leon**, **Alice** and **Laura** are up on what is happening each day.

Erskine-Leon--VPOTUS-POTUS: Ultimately, the whole process will only work if there is a regular process for getting information to **Leon** and the **Vice President** and **President**, getting approval, and proceeding.

C. STRATEGY AND POLICY MEETINGS:

NEC Budget/Leon Strategy Meetings: We should reinstate the twice weekly strategy meetings hosted by **Laura**, particularly to ensure an appropriations strategy that is fully coordinated with the Cabinet. **Alice**, would of course, have the lead on budget issues, and **Rubin** on tax issues, **Carol Rasco** on domestic issues, but we would have meetings so that strategy decisions could be thought through and discussed by the **COS**, economic team and political advisors.

Continuation of Budget Working Group: Gene has coordinated a budget working group that has included most of the best budget people in the Administration, including **Jack Lew**, **Martha Foley**, **Joe Minarik**, **John Angell**, **Barry Toiv**, **Larry Haas**, **Alan Cohen**, **Glenn Rosselli**, **Eric Toder**, **Chris Jennings**, **Barbara Chow**, **Paul Weinstein** etc. Gene would continue to hold these "working group" level meetings, but we would integrate them more with the principal level budget strategy meetings.

Rivlin Appropriations Coordination Meeting: **Alice** has begun chairing meeting with relevant cabinet members by appropriations sub-committee so that we can coordinate strategy and ensure that we are working as one team. These meeting would continue and feed into the overall Principals Budget Strategy process.

POTUS Strategy Meetings: Not having a forum to flesh out larger strategic issues with the President will paralyze us below. We need to have some ability for such issues to be discussed at NEC-type meetings with the President for his sign off.

D. OVERALL COORDINATION AND MANAGEMENT:

Erskine Bowles as CEO Reporting the Chief of Staff: **Erskine** would serve as the CEO on the working group, ensuring that everyone -- internally and externally -- knew the importance of the project. He would be the person responsible for reporting to and getting decisions from **Leon Panetta** and the President.

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NEC Process/Laura Tyson Coordinating Budget Strategy: The campaign would concern itself with implementation. Policy decisions and strategy would still have to come from Leon Panetta, Alice Rivlin, Carol Rasco and the main NEC principals -- Rubin, Tyson, Stiglitz -- along with Stephanopoulos. Clearly, Alice and OMB would continue to play its usual role in leading the budget process. Yet, for a campaign to work, Laura would have to develop a "fast decision" mechanism in which Leon, Alice, George and the economic principals -- and other relevant White House staffers -- would be able to communicate so that decisions could be made as to how to respond to incidents or comments or strategic choices that could happen at any time.

Gene Sperling as Working Group Coordinator: Gene would work to implement the strategy and policy decisions made by Leon, Alice Rivlin and the NEC principals and senior policy advisors. His job would be to ensure that there were detailed long-run and short-run strategies to be presented for approval to higher ups, and to be in charge of ensuring that the short-term plans, long-range planning and quick response were carried out. Where a decision needs to be made on strategy or policy, he would be responsible for bringing it to the attention of Leon, Erskine, Alice, Laura, George and the NEC so the decision could be made.

Deputy Coordinator: Someone would serve as a deputy coordinator, working with Gene to plan and to ensure that assignments were carried out and that nothing was falling through the cracks. While Gene would focus much of his attention on the substantive responses, quick responses and issues were being taken care of, this person would particularly watch over all political outreach -- from cabinet affairs, to public liaison, intergovernmental and political.

Possibilities: David Lane, NEC

Additional Younger Person: In addition to a deputy, there should be a single young person who also focused on overall management. **Possibilities:** Jason Goldberg, Julia Moffett, Michael Warren of the Labor Department.

E. DIVISIONS: As with other such efforts, it is important that there be people who are responsible for particular areas. While at some point, we may need these people to devote full time to their assignments, for now it may be enough for it simply to be considered their main assignment.

1. COMMUNICATIONS: There should be someone who watches over the entire communications arena -- who goes out to the shows, ensuring that things like the 19 Governors who supported us gets ample play, and so on. In addition to George, we need to closely integrate Don Baer so that speechwriting is completely involved with message development. We also need to include people like Bruce Reed, Rahm and others who can be very helpful in developing message opportunities. **Recommendation:** Michael Waldman.

2. **SURROGATES:** While each department will have to do surrogates for its area, one person should be responsible for ensuring that there is a proper surrogate strategy and the right types of talking points. Recommendation: Elgie Holstein, NEC
3. **LEGISLATIVE:** Pat needs to appoint one of his major people to be fully engaged on the budget and ensure that we are doing all we can to keep Democrats supportive. Recommendation: Susan Brophy with Barbara Chow backing her up.
4. **CABINET AFFAIRS:** Particularly for areas outside of health, education and training, we need someone to work with the other departments to ensure that we have coordination and that information is getting out to them in a timely manner. Recommendation: Steve Silverman Cabinet Affairs/ Leslie Thornton, Dep. COS at Education is a possibility for a detail.
5. **PRESIDENTIAL EVENTS:** Once we have decided to do a Presidential event, it might be good to have someone to ensure that those events are carried out and conceived in a way that ensures we make news with our message. Recommendation: Rahm (allow for his involvement while not pulling away from other activities)
6. **VICE-PRESIDENTIAL INVOLVEMENT:** It is important that Jack Quinn be as involved as much as possible so that we both have as much of the Vice President's time as possible and that we have his input and Jack's as we are developing message and strategy. Yet, again, it would be worthwhile for the VPOTUS office have someone else designated as their budget person. Recommendation: Lorraine or Greg or whoever they feel is best.
7. **REGIONAL COMMUNICATIONS:** This is critical, and we simply need to ensure that Lorrie McHugh has ample support.
8. **TALKING POINTS AND TALKING POINTS SIGN-OFF:** It is critical that we are able not only to get responses written, but to have them signed off on in a timely fashion that allows us to get in the news with our message and to ensure that we are all on the same line. While this will often be done by Gene or Larry Haas, it might be good to have someone responsible for coordination and sign-off. Recommendation: Barry Toiv.
9. **PRESS:** Mike needs to appoint either one his deputies to focus on this and get absorbed in the issues. Recommendation: Mary Ellen or Ginny.
10. **QUICK RESPONSE:** We must have a quick response team with people who have the time and ability to help come up with quick responses. Gene can watch over this, but there must be a good team. Recommended for team: One or two designated OMB people in addition to Minarik, Haas and Lew; Alan Cohen, Treasury, Mark Mazur, NEC/CEA, Robert Gordon NEC, Barry Toiv, COS.

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**** DEMOCRATIC NATIONAL COMMITTEE.** In addition to all these people within the White House, we will want someone with an understanding of message and budget from the Democratic National Committee to be designated as a liaison with the White House. This person would attend the daily meeting at the White House outlined below and feed information back to Dodd and Fowler. Leon, Harold and Erskine might have a regular conversation with Dodd and Fowler on coordinating higher level priorities.

F. INTEGRATED ISSUES GROUPS: Our top priority is to get our message out on the major differences between the President's budget and the Republicans' on: 1) health care and Medicare; 2) education and training; 3) tax fairness versus tax giveaways; 4) a solid 10-year plan that is good for the economy vs. an arbitrary seven year plans that forces arbitrary cuts that are bad for longterm growth. In addition, we will want to get our message out in other key areas like the environment and consumer safety. While each outreach arm of the White House should have its own plan, on the defining issues we need to have an integrated strategy where all arms of the White House are working together to come up with an integrated plan. These groups would make sure that all relevant arms are involved in the relevant strategy.

Feed Into Overall Meetings: Gene would work closely with each of these issues groups and then ensure that they are feeding into the Erskine meetings. As a result, we could make decisions as to when education versus health care or tax fairness should be on the calendar or given center stage.

Additional Point Person: In addition to Gene, there should be a point person or two who is solely focused on pushing forward the budget strategy plan, calendars, talking points, media strategy and events in that area.

1. HEALTH: We are already up and working on health care and Medicare, but we need to expand to ensure there is greater coordination with the outreach arms of the White House. Chris Jennings, Jen Klein and Gene from the White House policy councils already are working together well in coordination with Nancy Ann Min at OMB. Others working closely on health care include Judy Feder and others from HHS and Marilyn Yaeger on outreach. We may consider whether there is someone from HHS who can offer support. **Additional Point Person Recommendation: Chris and Jen.**

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2. EDUCATION: Here there is already a working group up and running bringing together representatives from all the departments in the White House, OMB, Education, Labor, and national service to work on coming issues. We will use this structure for the budget as well as issue development. Ken Apfel, Barry White and Gene have also already been working closely with the departments to develop common numbers for quick response. Ken Apfel will continue to take the main responsibility here coordination with Gene and others. Jeremy and DPC have been active in pulling together all of the pieces for a full strategy. We have tremendous enthusiasm and participation from Education, Labor and National Service. Additional Point Person Recommendation: **Jeremy Ben-Ami with help from Gaynor McGown, Paul Dimond.**

3. TAX ISSUES: Gene has been coordinating a EITC working group with Treasury, OMB and DPC that has been very successful at preparing an Administration strategy on our EITC message and defense. Les Samuels' shop and others at Treasury have done a great job of taking a leadership role and producing strong material.

We would now use that existing group and expand its focus to a broader public strategy for on how to promote our positive tax proposals (education tax deduction, IRA etc.) and to focus on the negative aspects of theirs. Samuel's shop would continue to be the lead policy analysis and numbers, but Treasury needs to appoint a more political person who could coordinate and think through events and message. Additional Point Person Recommendation: **Michael Barr or David Dreyer or both.**

4. WELFARE REFORM AND CRIME: We have already started to see the connection with the welfare reform and the overall budget with the EITC tax increases to pay for welfare reform. We need to ensure that Bruce Reed and Rahm are coordinated with this effort.

5. OTHER WORKING GROUPS: ENVIRONMENT, CONSUMER SAFETY: Beyond the three issues above that form our core message, there are other issue areas where we will need to pay focused attention.

At times we may want to form a separate inter-department working group or we may just want to encourage those currently working on the issue to feed into the process.

On the environment and consumer safety, for example, it is clear that the Republicans are taking extreme steps with which most Americans disagree. A group to coordinate policy and message could include top people from the Vice President's office, the Council on Environmental Quality, the Environmental Protection Agency, and other agencies.

As mentioned above, some of these issues groups have already been meeting and have been working on plans. Attached is the education/labor plan that has been put together for the next couple of weeks. The process will now work to develop plans in each area and then integrate them into an overall strategic plan.

July 10, 1995

MEMORANDUM FOR ERSKINE BOWLES

FROM: Gene Sperling
Jeremy Ben-Ami

SUBJECT: Potential Short-Term Presidential Education and Training
Events and Messages

We have been co-chairing a working group to coordinate education and training activities in the overall budget debate. Turnout and interest in these meetings has been extraordinary. The Chiefs of Staff of both Labor and Education, key under secretaries, the press secretaries, and representatives of all major White House divisions have been attending our weekly meetings. We are anxious to move ahead.

We are working under the assumption that whatever the overall budget strategy, we will want to draw a very visible, public distinction between our proposals and the Republicans in the area of education and training. There are key activities on the Hill throughout the next three weeks to which we can peg administration activity.

We have laid out one sample week in detail (Week of July 10), included ideas for major news hooks in each of the following two weeks, and attached a list of ideas brainstormed by the group for other possible activity.

Week of July 10

- o Congressional Activity Labor/HHS House Appropriations Subcommittee mark-up (starting July 11)
- o Recommended Administration Activity

- *Tuesday July 11* Presidential statement possibly at the Leadership meeting laying down a marker on education and training programs. Would precede the beginning of mark-up, guarantee that the President is in the story and avoid interfering with message of Wednesday speech.

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- *Wednesday July 12* POTUS comments included in the Religious Liberty speech on education cuts. Note: speech is at a public high school.

Statement following mark-up by Chief of Staff, strongly opposing action taken by the subcommittee.

Release of comparison of effects of mark-up and Clinton budget. Side by side chart to be used by Hill Democrats and widely faxed out.

Media: Secretary Reich already booked on Good Morning America. Other NEC principals do ed boards and elite media calls briefing on magnitude of cuts.

Regional Travel: NEC and other principals travel or at a minimum do regional media on cuts. Note: Secretary Riley already going to Colorado to Education Commission of the States.

Advocacy Groups: Chief of Staff/OMB Director briefing for key education groups on cuts.

Intergovernmental: Conference call and joint statement by Governors/Mayors.

Hill: Hill staff briefings -- side-by-sides and state-by-states shared by administration with Democratic members.

Mailing: Mass mailing of education/training information to regional media, opinion leaders, and key advocacy groups.

This is just a sample of what could be done in a given week to back up the President's message. Other weeks could have messages such as business support for investments in education and training or University Presidents' support for direct lending.

Week of July 17

- o Congressional Activity Mark up of Labor/HHS bill by full House Appropriations Committee (Thursday July 20)
- o Recommended Administration Activity

Message: Highlight corporate support for education investments.

Education and Labor working with WH Public Liaison to solicit letters of support from major CEOs.

Schedule release of letters to coincide with mark-up on Thursday July 20 or precede it on the 19th. Issue Presidential statement welcoming corporate support.

Work regional media in home states of CEOs. Attempt to find CEOs in states of appropriations committee members.

Target ed board calls to major papers in states of committee members.

Consider event with POTUS and CEOs. Could be delayed till later in budget process if there's interest.

Week of July 24

- o Congressional Activity This week, House floor action tentatively scheduled on Labor/HHS appropriations. Also mark of of student loan proposals (Wednesday, July 26)
- o Recommended Administration Activity

Message: University Presidents Support Student Aid

Invite major University Presidents to the White House to meet with the President and demonstrate their support for Direct Lending and the federal role in helping students and their families pay for education. (July 25, day before Direct Lending mark-up)

Regional media targeting states of the university presidents.

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POSSIBLE NEWSMAKING EVENTS AND ACTIVITIES ON EDUCATION AND TRAINING ISSUES

Presidential Events

- **Democratic Mayors Event.** On July 26, 15-20 big city Democratic Mayors are coming to the White House for a political briefing. They could also have a meeting in the Oval Office with the President and then go to the press stakeout to talk about education and training programs that are being cut on the Hill (e.g. Summer Jobs for Youth).
- **AFT Speech on July 28.** The President is scheduled to give a major speech at the American Federation of Teachers Conference on July 28. The speech should be broadcast by satellite around the country with additional events taking place to reach as large an audience as possible.
- **NACO and NCSL Conferences.** Both NACO (July 21-25) and NCSL (July 23-28) are having conferences this month. The President could give addresses by satellite to either (or both) conferences on education and training issues.
- **Other Education-and-Training-Related Events.** Several events are taking place during the month of July that could be used as message forums for the President. These events are not major news in-and-of themselves, but they could be used as basic forums for the President. They include: **The Enterprise National Launch Meeting (July 10-11); The Lifelong Learning Demonstration Project Community Celebration (Week of July 10); The One-Stop Career Centers Year-Two Implementation Sites (Week of July 17).**
- **Kentucky School-to-Work Graduation (Date TBD).** On June 19, Governor Jones and Lt. Governor Patton of Kentucky wrote the President to invite him to attend a graduation ceremony for a successful state school-to-work program partnership between the Kentucky Advanced Technology Center and Potter and Brumfield (a Siemens Company) that jointly trains adult students to be internationally certified tool-and-die makers. It is funded by the Commonwealth of Kentucky and Siemens. The Governor has left the date open based on the President's schedule, but they would like to do it sometime this summer. At the graduation, the Governor plans to announce the expansion of the program to include 15 local high-school students under the auspices of the local School-to-Work Program.

Other Presidential Forums that Should Be Utilized

- **Lunches with Small Groups.** Presidential lunches with small groups of leaders (Corporate CEO's, College Presidents, etc.) can be successful events if there are no competing events and there is activity on the Hill to tie into. Typically these lunches are closed press with pool spray and informal statements at the top.

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- **"Letters-Type" Events.** We have had several successful "letters-type" events on issues other than education and training. These events involve the President inviting a group of students, parents, teachers, employers, etc. . . . to the White House to talk about the importance of education/training programs in their lives and what the impact of the cuts will be.
- **Exclusive Interviews.** Exclusive interviews should be explored as they essentially guarantee coverage. Options should include everything from a network interview to a syndicated program such as Rockline (this Sunday night radio program has the largest listening audience of any music program in the country).
- **Radio Addresses.** These addresses can make news if given a real news hook. Suggested dates that correspond with major Congressional budget action include July 15, 22, or 29.
- **Conference Calls with Student Leaders.** Conference calls could take place with leaders who have organized groups around the student-loan issue. The President could commend their efforts and listen to their concerns.
- **Conference Calls with Parents and Students in Targeted Districts.**
- **Tarmac Greetings in Targeted Districts with Student Loan Recipients, Summer Job Participants, Americorps Members.**
- **Conference Calls with Governors in GOP Senate States.** This should be done on the same day as the Governors send a letter to the Hill on a given issue.
- **Large-scale Briefings with Education/Labor Groups at the White House with POTUS Drop-by Before Groups go to Hill to Lobby.**
- **Coordinate Special "Days" with Congress.** A small group of the major organizations can create an "Education Day" on the Hill to tie into expected committee action. These groups could sponsor a "Speak-Out or hearing where students, parents, teachers, and workers come to Washington to offer personal testimonials of the impact of the GOP Budget on their lives. Many Democratic Members would attend, and gimmicks could follow, such as giving every Democratic Member a set of "credentials" with a person from their district who will lose access to education with the GOP Budget cuts.

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DEPARTMENT OF HEALTH AND HUMAN SERVICES
ASSISTANT SECRETARY FOR PLANNING AND EVALUATION
OFFICE OF HEALTH POLICY



*Baseline /
Growth Rates*

PHONE: (202) 690-6870 FAX: (202) 401-7321

From: *Jeanne*

Date:

To: *Chris*

Phone: (202) 690-_____

(202) 690-6870

FAX: (202) 401-7321

Phone: _____

Fax: _____

Number of Pages (Including Cover): _____

Comments:

*GROWTH RATES,
again!*

MEDICARE GROWTH RATE COMPARISONS

The attached table shows: (1) the Administration and CBO baseline spending, (2) the Administration's balanced budget proposal, and (3) the Budget Resolution Conference Agreement, the House and the Senate Resolution Agreements. There are two issues that should be kept in mind when comparing growth rates under the proposals: (1) differences in baselines and pricing and (2) gross versus net baseline spending growth rates.

- **Differences in Baselines and Pricing:**

The Administration Proposal's Medicare savings are based on the Administration's baseline, while the Budget Resolution Conference Agreement's savings are based on the CBO baseline. It is difficult to compare these savings estimates for two reasons: (1) baseline differences, and (2) pricing differences.

- o Even if the Administration and CBO used exactly the same methodology to price a proposal, their estimates could differ due to different projections of current spending, or "baselines". In some areas, such as inpatient hospital expenditures, the baselines are similar so that pricing of policies may be similar. However, in other areas like home health expenditures, there are significant baseline differences which would affect pricing.
- o Differences in interpretation of the policies, and assumptions about beneficiary or provider behavior also affect pricing. For example, CBO had lower pricing of the Medicare prescription drug benefit proposed in the Health Security Act -- despite a higher estimate of baseline spending -- since CBO did not assume as large an increase in the demand for prescription drugs as the Administration.

- **Gross versus Net Medicare Spending:** Medicare spending can be shown in two ways: gross benefit spending or benefit spending net of premium receipts. The growth rates are different for the two types of spending because the premium receipts are not growing at the same rate as overall benefit spending.

- o **Gross Spending:** Gross spending measures total Medicare program spending on behalf of beneficiaries. This is more comparable to the private growth rates, since both gross spending and private spending (as shown in the Administration's and CBO's national health expenditures) include all spending on behalf of beneficiaries, regardless of payer. The Budget Resolution Conference Agreement's figures released by the Republicans on June 23 are gross spending projections; the projections in the June 26 Congressional Record are net spending.
- o **Net Spending:** The net spending represents only the Federal government spending -- not the beneficiaries' premium spending -- for Medicare. Net spending is shown in the savings and spending projections released under the House and Senate Resolutions in May, and the President's Proposal projections released in June.

MEDICARE SAVINGS
(Dollars in billions, fiscal years)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	95-00	96-00	96-02	96-05
ADMINISTRATION BASELINE															
Gross Spending (Including Premiums)	174.5	195.0	213.5	232.7	253.7	276.1	300.7	327.5	356.9	389.2	425.0				
<i>Growth</i>												9.6%	9.1%	9.0%	9.0%
<i>Per Capita Growth</i>												8.1%	7.6%	7.6%	7.7%
Net Spending (Excluding Premiums)	154.4	174.8	191.6	208.6	228.1	249.4	272.7	298.3	326.5	357.4	391.7				
<i>Growth</i>		13.2%	9.8%	8.7%	9.4%	9.3%	9.4%	9.4%	9.4%	9.5%	9.6%	10.1%	9.3%	9.3%	9.4%
<i>Per Capita Growth</i>												8.5%	7.8%	7.9%	8.0%
CBO BASELINE															
Gross Spending (Including Premiums)	178.1	199.0	219.4	240.1	263.4	288.1	315.2	345.3	378.9	416.4	458.3				
<i>Growth</i>												10.1%	9.7%	9.6%	9.7%
<i>Per Capita Growth</i>												8.6%	8.2%	8.2%	8.3%
Net Spending (Excluding Premiums)	158.0	178.7	197.5	215.9	237.4	260.8	286.5	315.2	347.3	383.2	423.9				
<i>Growth</i>		13.1%	10.5%	9.3%	10.0%	9.9%	9.9%	10.0%	10.2%	10.3%	10.6%	10.5%	9.9%	9.9%	10.1%
<i>Per Capita Growth</i>												9.0%	8.4%	8.5%	8.7%
Administration Proposal (Admin. Baseline)															
Gross Spending (Including Premiums)	174.5	191.7	208.0	223.5	238.1	253.6	270.8	289.2	312.2	335.4	359.1				
<i>Growth</i>												7.8%	7.2%	7.1%	7.2%
<i>Per Capita Growth</i>												6.3%	5.8%	5.7%	5.9%
Net Spending (Excluding Premiums)	154.4	171.5	186.3	199.4	212.6	226.9	242.0	260.0	281.7	303.5	325.8				
<i>Growth</i>		11.1%	8.6%	7.0%	6.6%	6.7%	7.0%	7.1%	8.3%	7.7%	7.3%	8.0%	7.2%	7.2%	7.4%
<i>Per Capita Growth</i>												6.5%	5.8%	5.8%	6.0%
Savings		-3	-6	-9	-16	-23	-30	-38	-45	-54	-66		-56	-124	-289
Budget Resolution Spending (CBO Baseline)															
Gross Spending (Including Premiums)	178.0	191	202	214	226	239	255	274	291	309	328				
<i>Growth</i>		7.3%	5.8%	5.9%	5.6%	5.8%	6.7%	7.5%	6.2%	6.2%	6.2%	6.1%	5.8%	6.2%	6.2%
<i>Per Capita Growth</i>												4.6%	4.4%	4.9%	4.9%
Net Spending (Excluding Premiums)	158.0	170.7	179.8	189.3	200.2	211.6	226.5	243.8	259.4	275.8	293.8				
<i>Growth</i>		8.0%	5.3%	5.3%	5.8%	5.7%	7.0%	7.6%	6.2%	6.2%	6.2%	6.0%	5.5%	6.1%	6.2%
<i>Per Capita Growth</i>												4.5%	4.1%	4.8%	4.9%
Savings		-8	-17.7	-26.6	-37.2	-49.2	-60	-71.4	-88	-107	-130		-139	-270	-595
Savings per Beneficiary (50%, w/extenders)		-100	-225	-350	-475	-600	-725	-875	-1050	-1275	-1525				

NOTE: Estimates for 2003-2005 for the Budget Resolution were not available. The average growth rate was used to estimate the spending in those years. Medicare spending excludes discretionary spending. Administration estimates of unduplicated beneficiaries were used for the per capita growth rates. These estimates DO NOT include any adjustment for the Republicans' proposed adjustment to the CPI. As a result, net spending is slightly lower than it would be after the adjustment.

07/05/95 16:43
202 401 7321
HHS ASPE/HP
JENNINGS
003/003

DEPARTMENT OF HEALTH AND HUMAN SERVICES
ASSISTANT SECRETARY FOR PLANNING AND EVALUATION
OFFICE OF HEALTH POLICY



Growth Rates

PHONE: (202) 690-6870 FAX: (202) 401-7321

Date: _____

From: _____

Jeanne

To: _____

Chris Jennings

Phone: (202) 690- _____

(202) 690-6870

Phone: _____

FAX: (202) 401-7321

Fax: _____

Number of Pages (Including Cover): _____

Comments: _____

Growth rates. Plus a memo FYI.

MEDICARE SAVINGS
(Dollars in billions, fiscal years)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	96-00	96-02	96-05
ADMINISTRATION BASELINE														
Gross Spending (Including Premiums)	174.5	195.0	213.5	232.7	253.7	276.1	300.7	327.5	356.9	389.2	425.0			
<i>Growth</i>												9.1%	9.0%	9.0%
Net Spending (Excluding Premiums)	154.4	174.8	191.8	208.6	228.1	249.4	272.7	298.3	326.5	357.4	391.7			
<i>Growth</i>		13.2%	9.8%	8.7%	9.4%	9.3%	9.4%	9.4%	9.4%	9.5%	9.6%	8.3%	8.3%	9.4%
CBO BASELINE														
Gross Spending (Including Premiums)	178.1	199.0	219.4	240.1	263.4	288.1	315.2	345.3	378.9	416.4	458.3			
<i>Growth</i>												9.7%	9.6%	9.7%
Net Spending (Excluding Premiums)	158.0	178.7	197.5	215.9	237.4	260.8	286.5	315.2	347.3	383.2	423.9			
<i>Growth</i>		13.1%	10.5%	9.3%	10.0%	9.9%	9.9%	10.0%	10.2%	10.3%	10.6%	9.9%	9.9%	10.1%
Administration Proposal (Admin. Baseline)														
Gross Spending (Including Premiums)	174.5	191.7	208.0	223.5	238.1	253.6	270.8	289.2	312.2	335.4	359.1			
<i>Growth</i>												7.2%	7.1%	7.2%
Net Spending (Excluding Premiums)	154.4	171.5	186.3	199.4	212.6	226.9	242.8	260.0	281.7	303.5	325.8			
<i>Growth</i>		11.1%	8.6%	7.0%	6.6%	6.7%	7.0%	7.1%	8.3%	7.7%	7.3%	7.2%	7.2%	7.4%
Savings		-3	-6	-9	-16	-23	-30	-38	-45	-54	-66	-56	-124	-289
Budget Resolution Spending (CBO Baseline)														
Gross Spending (Including Premiums)	178.0	191	202	214	226	239	255	274	291	309	328			
<i>Growth</i>		7.3%	5.8%	5.9%	5.6%	5.8%	6.7%	7.5%	6.2%	6.2%	6.2%	5.8%	6.2%	6.2%
Net Spending (Excluding Premiums)	158.0	170.7	179.8	189.3	200.2	211.6	226.5	243.8	259.4	275.8	293.8			
<i>Growth</i>		8.0%	5.3%	5.3%	5.8%	5.7%	7.0%	7.6%	6.2%	6.2%	6.2%	5.5%	6.1%	6.2%
Savings		-8	-17.7	-26.6	-37.2	-49.2	-60	-71.4	-86	-107	-130	-139	-270	-595
Savings per Beneficiary (50%, w/extenders)		-100	-225	-350	-475	-600	-725	-875	-1050	-1275	-1525			
House Resolution Spending (CBO Baseline)														
Net Spending (Excluding Premiums)	158.0	172.2	182.1	191.2	200.6	209.7	219	228.8	239.0	249.7	260.9			
<i>Growth</i>		9.0%	5.7%	5.0%	4.9%	4.5%	4.4%	4.5%	4.5%	4.5%	4.5%	5.0%	4.9%	4.7%
Savings		-6.5	-15.4	-24.7	-36.7	-51.1	-67.6	-86.4	-108.2	-131.4	-162.9	-134.4	-288.4	-690.9
Savings per Beneficiary (50%, w/extenders)		-75	-200	-325	-450	-625	-825	-1050	-1300	-1550	-1900			
Senate Resolution Spending (CBO Baseline)														
Net Spending (Excluding Premiums)	158.0	166.5	175.9	188.4	201.8	216.4	233.8	253.5	271.8	291.3	312.3			
<i>Growth</i>		5.4%	5.6%	7.1%	7.1%	7.2%	8.0%	8.4%	7.2%	7.2%	7.2%	6.8%	7.3%	7.2%
Savings		-12.2	-21.6	-27.5	-35.5	-44.4	-52.8	-61.7	-75.5	-89.9	-111.6	-141.2	-255.7	-532.7
Savings per Beneficiary (50%, w/extenders)		-150	-275	-350	-450	-550	-650	-750	-900	-1050	-1300			

NOTE: Estimates for 2003-2005 for the Budget Resolution were not available. The average growth rate was used to estimate the spending in those years. These estimates DO NOT include any adjustment for the Republicans' proposed adjustment to the CPI. As a result, net spending is slightly lower than it would be after the adjustment.

07/03/95 18:22 202 401 7321 HHS ASPE/HP JENNINGS 002/004

TO: Judy Feder, Wendell Primus, Christy Schmid, Debbie Change, Mark Miller
cc: Ira Burney, Sally Burner, Sharon Arnold, Don Johnson, John Richardson,
Parashar Patel
FROM: Jeanne Lambrew
RE: **HEALTH DISTRIBUTIONAL ANALYSIS**
DATE: July 3, 1995

On June 29, Ken Apfel at OMB convened a meeting to request the distributional effects of the Republican Resolution agreement cuts. The goal is to be able to say that x% of cuts come from the lower and middle classes, and y% of the tax cuts go to the upper class. Mark Miller and myself were the two people there for the health side of the analysis. I've taken the liberty to draft an outline for the analyses, which can be followed up by some meetings hopefully this week to address the issues.

There are two main challenges to each of these analyses: (1) figuring out what percent of the total Medicare and Medicaid cuts would directly affect beneficiaries; and (2) identifying appropriate data sources.

MEDICARE

Assumptions:

At this point, it seems we have only one option for dividing the full cuts into those affecting providers and those affecting beneficiaries: using the policies proposed by Shays. This would include:

- High-income beneficiary premium increase;
- 31% premium;
- 20% coinsurance for lab, home health and SNF;
- Increased deductible to \$150, indexed to Part B growth.

If I have missed something or there are alternatives, please let me know.

Data:

On Friday, Sally Burner, Ira Burney, Sharon Arnold and I met to discuss the Medicare analyses. We discussed two potential data sources for the analyses: (1) the modified CPS / NMES files that Actuarial Research Corporation has prepared for use by the Office of National Health Statistics and (2) the Medicare Current Beneficiary Survey. Apparently, HCFA is in the process of merging the MCBS with administrative data, with expected completion by the end of August. However, Sally is going to check to see if we can get special runs done earlier. Although a merged MCBS data set would have the needed data elements to do this type of analysis, it will be a 1993 file. Aging it to 1996 could take considerable time. Sally has the responsibility to (1) check on the status of both data bases, and (2) weigh the relative merit of the CPS-based data set, which is already a 1996 file, and the MCBS file, which may not be ready and is not aged. The Urban Institute does not have a health module in TRIM for the elderly; it has a data base for out-of-pocket spending for the elderly, which I need to examine more closely. We should have a better sense of these options by next Friday.

MEDICAID

Assumptions:

There are two options for estimating the effects of the proposal on recipients: (1) the 50/50 assumption that we used in May to estimate the effects of the House and Senate resolutions; and (2) the assumptions used by Holahan in the Kaiser report on the House and Senate resolutions. The latter splits the provider/recipient cuts by making the provider cut equal to the savings that can be generated by constraining growth in per capita costs to inflation or inflation plus 1.9%.

After a little thought, I recommend that we do the 50/50 split. If we adopt the Holahan approach, which limits the per capita growth rate and then eliminates coverage, it may be misinterpreted as implying that the President's per capita cap proposal would also limit coverage. Additionally, the wide range of state behavior that would occur under a block grant makes educated guesses difficult, so something arbitrary may be just as defensible. Please let me know what you think.

Regardless of the proportion of the total cuts affecting recipients, it seems safe to assume that half of recipient cuts eliminate eligibility for adults and kids, half the aged and disabled (done by both Holahan and ourselves). It seems logical to first eliminate the optional coverage and then possibly work our way down the income scale until we hit the number of people cut from each group.

Data:

We have two options, I think. First, we could use HCFA recipient and expenditure projections and make gross assumptions about the income distribution of the recipients. Second, we could talk with the Urban Institute, whose model has Medicaid and income data. The UI data might be better, since it ages both the eligibility and income definitions.

PROVIDER CUTS

In discussing the idea of distributing provider cuts in an income distribution analyses, we concluded that it doesn't really make sense. Although the cuts can be considered as coming from expenditures for recipients across the income distribution, it is not clear that the cuts are going to, or affecting, beneficiaries in this distribution. If we don't take into account provider cuts, we are essentially halving the dollar amount of the health care cuts in the chart that compares the overall cuts to the tax cuts. However, there seems to be no easy way to allocate these cuts in a meaningful way.

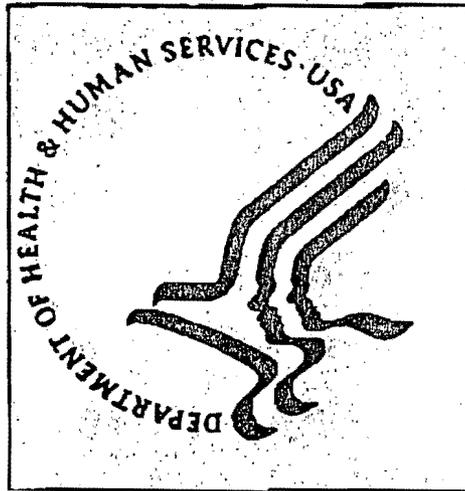
NEXT STEPS

On Medicare, we are hoping to have a meeting on **Friday, July 7 at 11am in 442E**. At that point we are hoping to enough information on data sets to potentially decide which one to use.

On Medicaid, there are fewer options. I think that on Thursday morning I will call the Medicaid people (Don, Kristin, Parashar unless I hear otherwise) to see if the following assumptions are ok: using the 50% assumption and TRIM2 data. If people think that this is fine, then we will skip a meeting and I will draft some specs for review by this crowd.

Any additional comments or concerns are welcomed. Thank you for your help.

DEPARTMENT OF HEALTH AND HUMAN SERVICES
ASSISTANT SECRETARY FOR PLANNING AND EVALUATION
OFFICE OF HEALTH POLICY



Baseline
Growth
Rates

PHONE: (202) 690-6870 FAX: (202) 401-7321

Date:

From:

Jeanne

To:

Chris Jennings

Phone:

(202) 690-
(202) 690-6870

Phone:

FAX:

(202) 401-7321

Fax:

Number of Pages (Including Cover):

Comments:

Growth rates plus a mean Eqn

*More growth rates, plus the
CBO "FACT SHEET" - what is publicly
distributed.*

CBO February Baseline: MEDICARE

Outlays by fiscal year,
in billions of dollars.

Average
Annual
Rate of
Growth

	1995	1996	1997	1998	1999	2000	
PART B: SUPPLEMENTARY MEDICAL INSURANCE (SMI)							
TOTAL SMI OUTLAYS	67.6	76.8	85.9	95.6	106.8	119.4	
Annual Growth Rate	13.2%	13.7%	11.7%	11.3%	11.7%	11.8%	12.1%
TOTAL SMI BENEFITS	65.8	74.9	83.9	93.5	104.6	117.1	
Annual Growth Rate	13.4%	13.9%	11.9%	11.5%	11.9%	12.0%	12.2%
Physicians	32.8	36.8	40.4	43.9	47.9	52.3	
Annual Growth Rate	9.8%	12.4%	9.7%	8.7%	9.0%	9.3%	9.8%
DME and P & O Suppliers	2.9	3.4	3.9	4.5	5.0	5.7	
Annual Growth Rate	13.1%	16.1%	15.5%	13.7%	12.4%	13.2%	14.2%
Laboratories	4.7	5.4	6.0	6.6	7.4	8.2	
Annual Growth Rate	12.2%	13.1%	11.3%	11.0%	11.4%	11.4%	11.6%
Outpatient Hospital	10.4	12.0	13.6	15.6	17.9	20.5	
Annual Growth Rate	14.5%	14.7%	13.9%	14.5%	15.0%	14.1%	14.4%
HMOs	6.8	8.4	10.1	11.9	14.1	16.7	
Annual Growth Rate	22.5%	23.0%	19.7%	18.6%	18.5%	18.4%	19.6%
Other Part B Benefits	8.0	8.9	9.9	10.9	12.2	13.7	
Annual Growth Rate	21.2%	11.2%	10.2%	10.9%	12.0%	11.6%	11.2%
Program Administration	1.8	1.9	2.0	2.1	2.2	2.3	4.9%
Part B Information:							
Deductible (calendar year, in dollars)	\$100	\$100	\$100	\$100	\$100	\$100	
MEI Update (calendar year)	2.1%	2.9%	2.9%	2.9%	2.8%	2.9%	
Physician Update (calendar year)	7.7%	3.9%	-1.6%	-2.1%	-1.0%	-1.0%	
Laboratory Update (calendar year)	0.0%	3.4%	3.4%	3.4%	3.4%	3.4%	
DME Update (calendar year)	3.2%	3.3%	3.4%	3.4%	3.4%	3.4%	
Monthly Premium (in dollars)	\$45.10	\$43.70	\$48.20	\$53.20	\$55.00	\$58.90	58.80 60.5
SMI Premium Receipts (in billions)	19.2	19.3	20.8	23.3	24.7	25.9	14.1
Fiscal Year Enrollment (in millions)	35.7	36.3	36.8	37.2	37.7	38.1	38.6 3

MEDICARE TOTALS:

Mandatory Outlays	178.2	199.1	219.4	240.4	263.4	288.1	10.1%
Discretionary Outlays	3.0	3.1	3.3	3.5	3.6	3.8	4.9%
Total Outlays	181.1	202.2	222.7	243.9	267.0	291.9	10.0%
Total Premium Receipts	-20.1	-20.3	-22.0	-24.5	-26.1	-27.3	6.4%
Net Outlays (Total-Receipts)	161.1	181.9	200.7	219.4	241.0	264.6	10.4%

This includes discretionary outlays, which we don't count

225 - 2125

CBO February Baseline: MEDICARE

Average Annual Rate of Growth

Outlays by fiscal year,
 in billions of dollars.

	1995	1996	1997	1998	1999	2000	
PART A: HOSPITAL INSURANCE (HI)							
TOTAL HI OUTLAYS	113.6	125.4	136.8	148.3	160.2	172.5	
Annual Growth Rate	10.5%	10.4%	9.2%	8.4%	8.1%	7.7%	8.7%
TOTAL HI BENEFITS	112.0	123.7	135.2	146.6	158.5	170.7	
Annual Growth Rate	10.3%	10.4%	9.3%	8.4%	8.1%	7.7%	8.8%
Hospitals/HMOs	86.4	93.1	100.1	107.5	115.6	124.0	
Annual Growth Rate	7.2%	7.8%	7.5%	7.4%	7.5%	7.3%	7.5%
Hospitals	79.0	83.5	88.2	93.5	99.2	104.8	
Annual Growth Rate	5.2%	5.7%	5.6%	6.0%	6.1%	5.7%	5.8%
HMOs	7.4	9.6	11.9	14.0	16.4	19.2	
Annual Growth Rate	35.6%	30.3%	23.7%	17.6%	17.3%	16.9%	21.1%
Hospice	1.9	2.5	3.1	3.7	4.2	4.7	
Annual Growth Rate	39.9%	32.0%	24.0%	18.0%	15.0%	12.0%	20.0%
Home Health	14.7	17.2	19.8	22.2	24.2	26.2	
Annual Growth Rate	21.2%	17.2%	15.1%	11.7%	9.1%	8.4%	12.2%
SNF	9.0	10.8	12.2	13.3	14.5	15.7	
Annual Growth Rate	28.4%	19.7%	12.3%	9.3%	8.7%	8.6%	11.7%
Discretionary Administration	1.2	1.2	1.3	1.4	1.4	1.5	
Annual Growth Rate	-3.6%	4.2%	5.1%	5.0%	5.0%	5.0%	4.8%
Mandatory Administration	0.3	0.4	0.3	0.3	0.3	0.3	0.2%
Part A Information:							
PPS Hospitals	68.6	72.2	75.9	79.8	83.9	88.1	
Non-PPS Hospitals/Units	10.4	11.3	12.3	13.6	15.2	16.7	
Indirect Teaching Payments	3.6	3.8	4.0	4.3	4.6	4.9	
Direct Medical Education Payments	1.9	2.1	2.3	2.5	2.7	2.8	
Inpatient Capital Payments	7.8	9.4	10.2	10.9	11.6	12.3	
Disproportionate Share Payments	3.4	3.5	3.7	3.9	4.1	4.3	
HI Trust Fund Income	116.6	123.0	127.5	133.0	138.1	143.2	
HI Trust Fund Surplus	3.0	-2.4	-9.4	-15.3	-22.2	-29.3	
HI Trust Fund Balance (EOY)	131.7	129.3	119.9	104.7	82.5	53.2	
HI Deductible (in CY dollars)	\$716	\$736	\$764	\$800	\$836	\$872	
Part A FY Enrollment (in millions)	37.0	37.6	38.2	38.7	39.2	39.8	
PPS Market Basket Increase FY%	3.6%	3.8%	3.7%	3.6%	3.6%	3.6%	
PPS Update Factor (average)	2.0%	1.8%	3.2%	3.6%	3.6%	3.6%	
Monthly Premium (in CY dollars)	\$261	\$283	\$304	\$324	\$345	\$367	
Premium Receipts	\$0.9	\$1.0	\$1.1	\$1.2	\$1.3	\$1.4	

TOO MUCH, TOO FAST

The Impact on Older Americans of Medicare and Medicaid
Reductions in the FY'96 Budget Resolution

Prepared by the
American Association of Retired Persons
June 29, 1995

For further information contact:
Tricia Smith
AARP Federal Affairs Department Health Team
(202)434-3770

Introduction

Older Americans support deficit reduction and they want a strong economy for their children and grandchildren. But they also understand that financial security — for themselves and their families — is dependent upon adequate and affordable health care coverage.

AARP believes that deficit reduction should be fair and balanced. We should strive to keep our economy on a steady path of deficit reduction, but we should not jeopardize the Medicare and Medicaid programs and the financial security they provide in the process.

The Fiscal Year 1996 (FY96) Budget Resolution proposes to take nearly half of the deficit reduction of the next 7 years out of Medicare and Medicaid. In both programs these are the largest cuts ever proposed, and in Medicare the proposed cuts are far more than what is needed to keep the programs solvent for the next decade.

As Congress struggles to meet its arbitrary deficit reduction deadlines and targets, hasty and ill-considered policy decisions are almost inevitable. Medicare and Medicaid beneficiaries will end up paying out-of-pocket what the programs will no longer pay.

The Medicare and Medicaid programs are not perfect. Changes are appropriate. Indeed, they must begin this year. A better approach recognizes that the Medicare and Medicaid programs will need to adapt to changing needs and budgetary constraints. But these changes should be carefully thought out, with considerable input from beneficiaries who understand fully what these changes will mean for them and for their children and grandchildren.

CONGRESSIONAL BUDGET RESOLUTION COULD DEVASTATE MEDICARE BENEFICIARIES

Congress has proposed unprecedented reductions in Medicare spending as part of the FY96 Budget Resolution. The proposal would reduce Medicare by \$270 billion over the next seven years. These reductions are nearly three times as large as the reduction enacted in the Omnibus Budget Reconciliation Act of 1993 (OBRA93).⁽¹⁾

This document describes illustrative increases in beneficiary out-of-pocket costs under the resolution and the impact these cuts would likely have on the average older American.

How Much More Will Beneficiaries Pay?

- AARP estimates that these proposals to reduce Medicare spending would mean that the average Medicare beneficiary would pay approximately **\$3,400 more out-of-pocket** over the next seven years (see Chart 1).⁽²⁾ Estimates are based on the assumption that one-half of proposed Medicare spending reductions come from beneficiaries.

What Are Beneficiaries Paying Already?

- In 1995, the average older beneficiary will spend about \$2,750 out-of-pocket to cover the cost of Medicare premiums, deductibles, coinsurance and the cost of services not covered by Medicare — like prescription drugs and preventive care. This does not include the enormous cost of nursing home care, which is nearly \$40,000 a year. Even without any changes in Medicare, these older beneficiaries are already projected to spend more than \$25,500 out-of-pocket for health care costs over the next 7 years.⁽³⁾ Under the Budget Resolution, an average beneficiary would end up spending a total of about \$29,000 over seven years — an increase of about \$3,400.

How Will Beneficiaries Be Affected?

- To achieve the Medicare spending reductions in these proposals, costs that are currently paid by the Medicare program would probably be shifted to Medicare beneficiaries in the form of higher premiums, deductibles and coinsurance.

These could include:

- a higher Medicare Part B premium;
- an increase in the annual Part B deductible to \$150, indexed to program growth;
- a new 20 percent home health coinsurance;
- a new 20 percent coinsurance for skilled nursing facility care;
- a new 20 percent lab coinsurance;
- a new income-related premium for higher-income beneficiaries

All of these options have been under review in the Congress this year.

What Will These Additional Out-of-Pocket Costs Mean to Beneficiaries?

1) *A Higher Medicare Part B Premium*

Currently, the Part B premium is intended to approximate 25 percent of Part B costs. In 1995, the premium is \$46.10 per month, \$553.20 annually. It is estimated to grow to \$60.80 per month, \$729.60 annually, by 2002. The premium is deducted from most beneficiaries' Social Security checks. The remaining 75 percent of Part B costs are paid from general revenues.

When Medicare was enacted in 1965, the Part B premium was set at 50 percent of program costs. In 1973, in an effort to keep health care costs from consuming more and more of beneficiaries' income, Congress limited the percentage growth in the Part B premium to the annual increase in the Social Security COLA; the share of costs paid by premiums declined thereafter until it reached roughly 23 percent in 1982. Since 1982, Congress has set the Part B premium to equal or approximate 25 percent of program costs.

- The Budget Resolution could substantially increase the Part B premium paid by Medicare beneficiaries thereby shifting higher health care costs to Medicare beneficiaries. Under the proposal, the premium is estimated to jump to \$97.70 per month, or \$1172.40 annually by 2002. That is \$442.80 more than the beneficiary would pay under current law. Over the next 7 years, most Medicare beneficiaries would pay an estimated additional \$1,590 for the Part B premium alone.

2) *An Increase in the Medicare Part B Deductible to \$150 — Indexed to Part B Program Costs*

Each year, all Part B enrollees pay the first \$100 in approved charges for Part B services. This annual Part B deductible is not indexed. Roughly 80 percent of Part B enrollees meet the Part B deductible.

- Increasing the Part B deductible from \$100 to \$150 would present a significant barrier to access for lower income beneficiaries. Moreover, anticipated reductions and changes to the Medicaid program make it increasingly unlikely that Medicaid would pay the additional costs for low-income individuals.
- Indexing the deductible would increase out-of-pocket costs for the average Medicare beneficiary for each succeeding year. Under the Budget Resolution, the deductible could grow from \$100 today to \$270 by 2002. For beneficiaries, the total out-of-pocket increase for the deductible over the 7 year period would be \$334 per beneficiary. Even those beneficiaries with Medigap plans covering the Part B deductible would not be immune to the increased out-of-pocket costs, since Medigap premiums would likely increase to cover the cost of the higher deductible.

3) *A New 20 Percent Medicare Home Health Coinsurance*

For a beneficiary to qualify for Medicare home health coverage, a physician must certify that the care is medically necessary and that the client is homebound and in need of only intermittent or part-time skilled care (skilled nursing or therapy). In 1996, about 3.8 million Medicare beneficiaries will use home health benefits. Approximately two-thirds of Medicare home health users are women; almost two-thirds are over age 75. Under current law, there is no coinsurance for persons who use Medicare home health services. This is intended to encourage the use of more effective, less costly non-institutional services.

- A new 20 percent coinsurance would require the average home health user to pay an additional \$900 in 1996 and almost \$1,200 out-of-pocket in 2002. The very frail individuals who need and use home health care the most, over 700,000 Medicare beneficiaries in 2002, would pay an annual coinsurance of over \$3,800 in that year.
- Imposing a new out-of-pocket payment would be a "sick tax" on the most frail and vulnerable elderly and disabled Americans — those who can least afford it. Almost 80 percent of all Medicare home health users have annual incomes of less than \$15,000 (see Chart 2). Approximately 24 percent have incomes between 100 percent and 150 percent of the federal poverty line (almost one million beneficiaries in 2002) — too high to qualify for current low-income protection under the Qualified Medicare Beneficiary (QMB) program, and too low to be able to afford a Medigap policy to cover these new out-of-pocket costs. As a result, many would lose access to these necessary services.

Under the current QMB program, individuals with incomes below 100 percent of the

Federal poverty line (\$7,360 for singles and \$9,840 for couples in 1994) would be eligible to have Medicaid pay the new 20 percent coinsurance. Unfortunately, the QMB program provides inadequate protection even for those who are eligible, primarily as a result of inadequate outreach. In addition, anticipated reductions and changes in the Medicaid program make it increasingly unlikely that Medicaid will continue to pay for qualified Medicare beneficiaries (QMBs) in many states.

- Since physicians are responsible for determining eligibility for Medicare home health coverage, a new beneficiary coinsurance is not an effective method for controlling potential inappropriate utilization.
- The 20 percent coinsurance proposal is "penny wise and pound foolish" because many beneficiaries who could not afford the coinsurance and, as a result, failed to receive needed services would be forced into nursing homes or hospitals. Those who could afford the new coinsurance would also spend down to Medicaid eligibility levels more quickly. As a result, states and the federal government could end up having to spend more than they would without the new coinsurance.
- There appears to be significant fraud and abuse in the Medicare home health program. Before making older Americans pay more, this fraud and abuse must be significantly reduced. It is not fair to force beneficiaries to make percentage payments based on artificially inflated costs that may have been fraudulently incurred.

CASE STUDY

Imposing a New 20 Percent Medicare Home Health Coinsurance. . . .

The typical Medicare beneficiary who needs home health care is a lower income woman over age 75. To illustrate the impact of a 20 percent home health coinsurance, let us take the hypothetical example of Mrs. Jones, who is an 80-year-old widow and has an annual income of \$10,000 (approximately the median income level for home health users). Mrs. Jones currently spends about \$3,000 per year out-of-pocket on her health needs (a typical amount for an 80-year old). She has too much income to qualify for QMB protection, but not enough to be able to buy a Medigap policy. If Mrs. Jones were forced to pay an additional 20 percent home health coinsurance, her out-of-pocket health costs in 1996 would increase from \$3,000 to \$3,900. This would leave her with about \$6,100, or approximately \$500 per month to pay for her basic needs for food, clothing and shelter.

4) A New 20 Percent Coinsurance for Medicare Skilled Nursing Facility (SNF) Care

Under current law, beneficiaries are eligible to receive up to 100 days of Medicare-covered skilled nursing facility (SNF) services following at least three consecutive days in a hospital. Beneficiaries must need "medically necessary skilled services" to receive coverage. No coinsurance is imposed for the first 20 days of covered care. For days

21-100. beneficiaries must pay \$89.50 per day (one-eighth of the Part A Hospital deductible). On average, Medicare beneficiaries who need SNF care receive about 30 days of coverage. Typical diagnoses for SNF users are hip fracture and stroke.

- Imposing a 20 percent coinsurance amount for all covered days means that the vast majority of SNF users will have to pay more out-of-pocket to receive needed care. This is because the average length of coverage is about 30 days, and under current law, no coinsurance is imposed for the first 20 days.
- A major concern is that lower income beneficiaries will not be able to afford the coinsurance and may be denied access to needed rehabilitative services in a SNF. This is particularly true if the proposal to cap and block grant the Medicaid program is enacted, because it would seriously jeopardize the only low-income protection available under current law — the Qualified Medicare Beneficiary (QMB) program (see Medicaid section). Without this help in paying for SNF coinsurance, many low-income stroke and hip fracture victims would not be able to get the rehabilitation they need, and could end up spending additional days in the hospital or needing to be readmitted to the hospital.

5) A New 20 Percent Coinsurance for Medicare Laboratory Services

Currently, Medicare beneficiaries do not pay a coinsurance for laboratory services. Labs are paid on the basis of a fee schedule and are required to accept Medicare payments as full payment.

- Since physicians order laboratory tests — not beneficiaries — a 20 percent coinsurance could present a shift in costs for services over which beneficiaries have no control.
- Many lab tests are low cost — under \$15.00 or \$20.00. In some cases it probably will not be cost effective to collect a coinsurance.

6) A New Income-Related Premium for Higher Income Medicare Beneficiaries

Currently the Part B premium is intended to approximate 25 percent of Part B costs, and it is not based on beneficiaries' income.

- As a result of the Budget Resolution, Congress could impose a new, income-related premium for beneficiaries with incomes above \$125,000 (singles) or \$150,000 (couples). Some propose setting these thresholds as low as \$55,000 for a single.

- At the highest income categories, beneficiaries would pay triple the amount they now pay for the Part B premium. If the income thresholds for the proposed high-income premium are not indexed, each year a greater percentage of Medicare beneficiaries would be required to pay the new, higher premium. In the future, Congress could simply choose to lower the income threshold, thereby increasing revenues.
- At the same time that an income-related premium would be imposed on Medicare beneficiaries, federal subsidies for health care costs for those under age 65 would continue, regardless of an individual's income. These subsidies come in the form of the tax deduction for employer-provided health insurance. As a result of the savings target under the Budget Resolution, Congress could impose higher health costs on higher-income older Americans but would continue federal subsidies for corporate executives, middle-aged millionaires, and Members of Congress. A May, 1994 Price Waterhouse analysis estimated that reducing federal subsidies for higher-income individuals under age 65 in the same manner as for Medicare beneficiaries would result in federal budget savings that are four times as large as the Medicare income-related premium savings.

7) *Beneficiary Access to Care could be Jeopardized*

Medicare beneficiaries' access to needed health care could be seriously hurt by the unprecedented reductions in Medicare spending included in the FY 96 Budget Resolution. For the average older American, the \$270 billion in Medicare spending reductions will mean:

- **Increased Out-of-Pocket Costs That Could Limit Access to Services:** For the average beneficiary, the proposal to reduce Medicare spending could cost about \$3,400 more out-of-pocket over the next seven years in the form of higher premiums, coinsurance and deductibles. For many beneficiaries — particularly those with low incomes — the additional costs are on top of the \$2,750 they already pay out-of-pocket for health care in 1995. Older Americans spend roughly 20 percent of their income on health care — nearly three times as much as those under age 65. Increasing out-of-pocket costs could mean that fewer beneficiaries would be able to afford the care they need and many would be forced to wait until a condition worsens and care is even more expensive.
- **Spending Cuts That Could Limit Access to Providers:** As physician payments are reduced, many doctors will try to shift more costs onto Medicare beneficiaries. One likely way for this to happen is through the elimination of the Medicare balance billing limits. This change would allow doctors to charge beneficiaries significantly more than what Medicare approves. If this happens, many older Americans would no longer be able to afford to see their doctors. In other

cases, physicians may find that it is no longer profitable to treat Medicare patients, leaving beneficiaries without access to a doctor. Still other beneficiaries may have to travel long distances for hospital care since many hospitals across the country — particularly in rural areas — would be forced to close.

- **Spending Cuts That Could Limit Access to Health Plans:** The level of spending reductions included in the Budget Resolution could result in substantially higher premiums for beneficiaries who choose to remain in traditional fee-for-service Medicare. Some beneficiaries might no longer be able to afford to stay in fee-for-service and would be forced into managed care.

8) *Medicare Caps could be Imposed*

- **Structure**

Members of Congress are considering a Medicare spending "cap" as one method for achieving budget savings. Under this approach, yearly spending limits or targets would be established for the Medicare program. This cap could take one of several forms: a total spending limit for the program, a limit on the annual growth rate in the program; or a per capita spending limit. The cap could be fixed in law or determined on a yearly basis.

Annual Medicare spending would then be measured against the cap. Under one approach, known as a "look-back," actual Medicare spending would be compared with the target at the end of each year. If actual spending exceeded the target, then Medicare spending for the following year would be reduced by the amount exceeding the target.

- **Impact on Beneficiaries**

A Medicare cap would have a direct bearing on Medicare beneficiaries. If Medicare spending exceeds the yearly cap, automatic cuts in Medicare spending would likely translate into higher out-of-pocket costs for Medicare beneficiaries — in the form of higher premiums, coinsurance or deductibles — as well as reductions in payments to hospitals and doctors which would affect beneficiary access to services.

Advocates of a Medicare cap claim that this kind of target is necessary to keep program spending in check. However, for the average beneficiary — who has little control over Medicare program spending — this would mean an even greater out-of-pocket burden for Medicare services.

(1) This analysis is based on the June 22, 1995 Budget Resolution Conference Agreement.

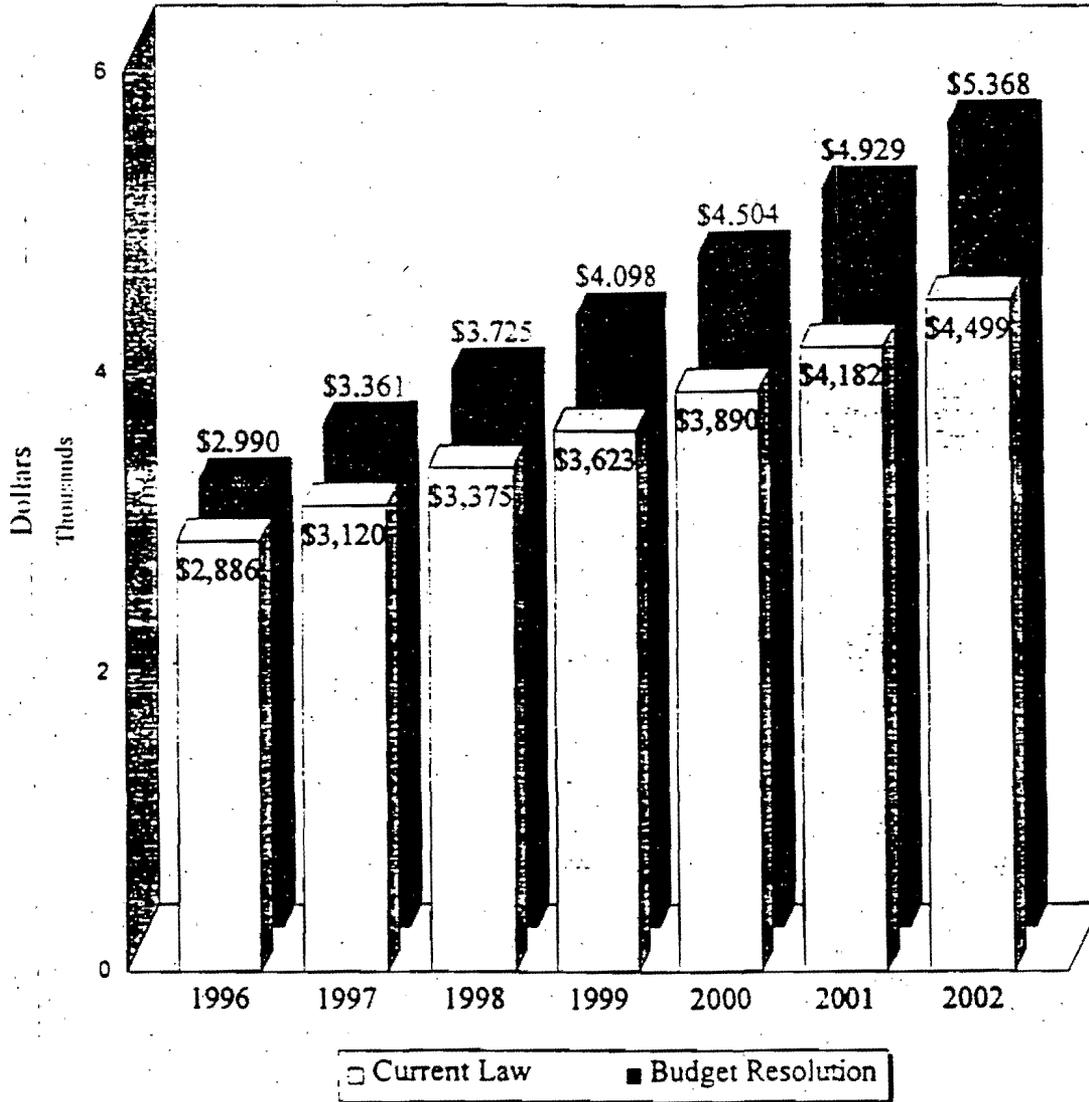
(2) Increased out-of-pocket costs are averaged across all Medicare beneficiaries.

(3) Out-of-pocket health costs include all health care expenses of non-institutionalized older individuals except those paid by Medicare. Medicare and private premiums, and prescription drugs, for example, are considered out-of-pocket costs. Data are based on December, 1993 CBO projections of population subgroups and National Health Accounts data by type of service and payer.

Chart 1

Comparison of Illustrative Increases in Average Beneficiary Out-of-Pocket Costs under the Congressional Budget Resolution

Over the seven year period, 1996-2002, average costs would increase by \$3,400 per beneficiary.

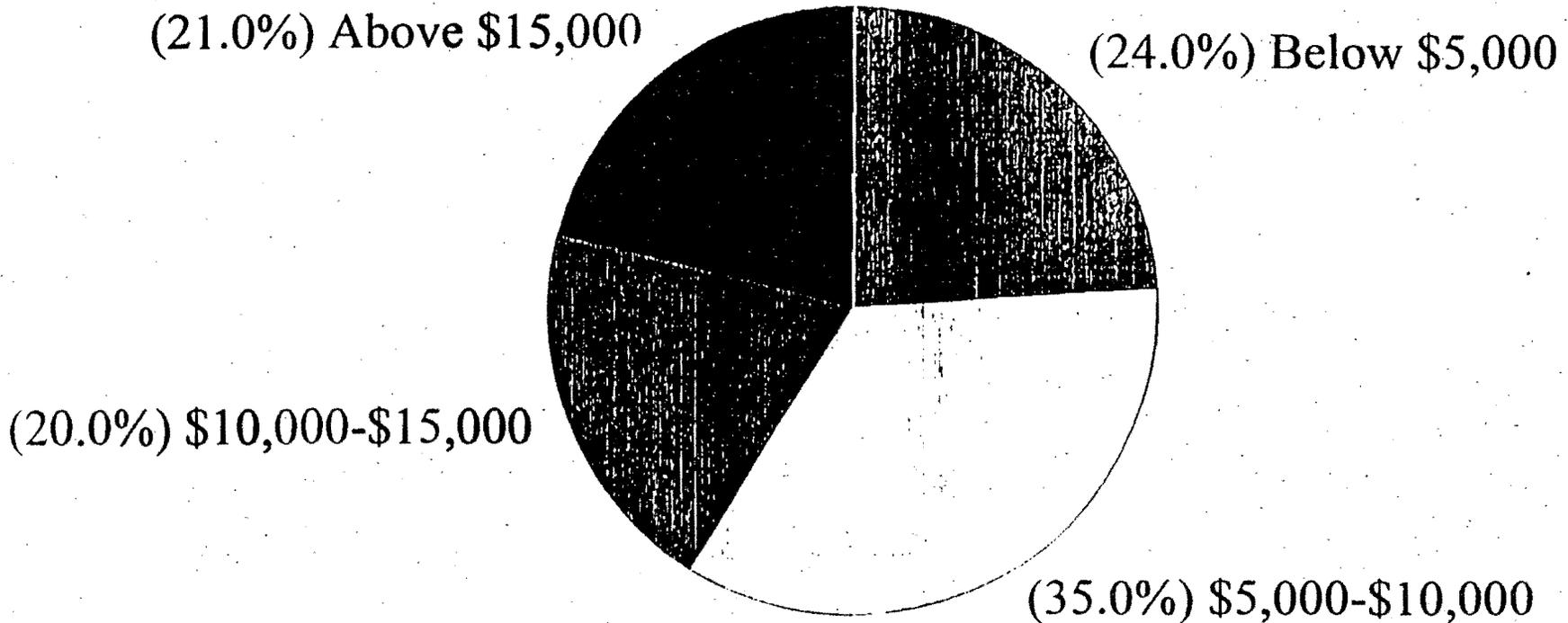


Sources:

a. "Coming Up Short: Increasing Out-of-Pocket Health Spending by Older Americans." Prepared by AARP/Public Policy Institute, April 1994; Updated February 1995.

b. Prepared by AARP/Federal Affairs based on information from "Reducing the Deficit: Spending and Revenue Options." Congressional Budget Office, February 1995.

1992 Income* of Medicare Home Health Users



* Self-reported by income categories, including spouses' income.



JUST THE FACTS...

Unprecedented Medicaid Reductions Could Eliminate Health Insurance Coverage For Many Vulnerable Americans

The FY 96 Budget Resolution includes the largest Medicaid reductions in the history of the program — \$182 billion in savings over the next 7 years. In the year 2002 alone, the budget proposal would reduce projected federal Medicaid spending by \$54 billion, a reduction of about 30% below what the government estimates it will cost to run the program delivering the same services and benefits that it does today. The annual Medicaid growth rate would be capped, gradually reduced to a 4 percent rate of growth — less than half of the current 10 percent growth rate. In addition, the Budget Resolution anticipates that the entire Medicaid program would be turned into a "block grant" to the states.

Medicaid is the health and long-term care safety net for vulnerable children, older and disabled Americans. More than 4 million older Americans depend on Medicaid for coverage of preventive care, prescription drugs, nursing home and home and community-based long-term care. Medicaid also assists over 2 million low-income qualified Medicare beneficiaries (QMBs) by paying their Medicare premiums (if income is below 120 percent of poverty), deductibles and coinsurance (if income is below 100 percent of poverty). In addition, more than 15 million low-income children are covered by Medicaid, most of whom live in families where at least one adult is employed.

Budget reductions of this size will have enormous consequences for these vulnerable Americans:

- **The number of families without basic health insurance would likely increase dramatically.** How individual states would respond to the proposed cuts would vary by state, but some things are clear. It is unlikely that states will raise taxes or shift money from education or prisons to make up for the federal reductions. Some states are likely to respond by cutting their own Medicaid spending as well. According to estimates by the Urban Institute, in the year 2002, more than 8 million Americans could lose their Medicaid coverage as a result of these proposed reductions.
- **Many older Americans would likely lose coverage for long-term care.** Medicaid is most Americans' sole protection against the high costs of long-term care. About 35 percent of Medicaid spending goes for long-term care and Medicaid pays for more than half of the nation's nursing home costs. Many who need long-

term care start off as taxpaying, middle class Americans. When chronic illness strikes, they must "spend down" their life savings until they are eligible for the Medicaid long-term care "safety net." According to estimates by Lewin-VHI, in the year 2002, **over 2 million Americans could lose their Medicaid coverage** for long-term care as a result of the proposed reductions.

Some greater state flexibility could help Medicaid — but **block grants, like the proposed reductions, go too far.** There remain substantial opportunities for simplifying the program and making coverage more rational. AARP would support greater state flexibility when it would expand coverage, improve services, or contain costs without jeopardizing access or quality. Repealing essential federal consumer protections, however, could result in great harm to older Americans.

DEPARTMENT OF HEALTH AND HUMAN SERVICES
ASSISTANT SECRETARY FOR PLANNING AND EVALUATION
OFFICE OF HEALTH POLICY



Group Rate

PHONE: (202) 690-6870 FAX: (202) 401-7321

Date: _____
From: *Jeanne* To: *Chris*

Phone: (202) 690- _____ Phone: _____
(202) 690-6870
FAX: (202) 401-7321 Fax: _____

Number of Pages (Including Cover): _____

Comments: *There are some minor*
revisions -
These have NOT gone to
OMB. Are you
going to do that?

MEDICARE GROWTH RATE COMPARISONS

The attached table shows: (1) the Administration and CBO baseline spending, (2) the Administration's Proposal's savings and spending, and (3) the Budget Resolution Conference Agreement savings and spending. There are two issues that should be kept in mind when comparing growth rates under the proposals: (1) differences in baselines and (2) gross versus net baseline spending growth rates.

- **Differences in Baselines:**

The Administration Proposal's Medicare savings are based on the Administration's baseline, while the Budget Resolution Conference Agreement's savings are based on the CBO baseline. It is difficult to compare these savings estimates for two reasons: (1) baseline differences, and (2) pricing differences.

- o If the Administration and the CBO used exactly the same methodology to price a proposal, their estimates could differ due to varying projections of current spending, or "baselines". In some areas, such as inpatient hospital expenditures, the baselines are similar so that pricing of policies may be similar. However, in other areas like home health expenditures, there are significant baseline differences which would affect pricing.
- o Differences in interpretation of the policies, and assumptions about beneficiary or provider behavior also affect pricing. For example, the CBO had lower pricing of the Medicare prescription drug benefit proposed in the Health Security Act -- despite a higher estimate of baseline spending -- since the CBO did not assume as large an increase in the demand for prescription drugs as the Administration.

- **Gross versus Net Medicare Spending:** Medicare spending can be shown in two ways: gross benefit spending or benefit spending net of premium receipts. The growth rates are different for the two types of spending because the premium receipts are not growing at the same rate as overall benefit spending.

- o **Gross Spending:** Gross spending measures total Medicare program spending on behalf of beneficiaries. This is more comparable to the private growth rates, since both gross spending and private spending (as shown in the Administration's and CBO's national health expenditures) include all spending on behalf of beneficiaries, regardless of payer. The Budget Resolution Conference Agreement's figures released by the Republicans on June 23 are gross spending projections.
- o **Net Spending:** The net spending represents only the Federal government spending -- not the beneficiaries' premium spending -- for Medicare. Net spending is shown in the Function 570 savings and spending projections released under the House and Senate Resolutions in May, and the President's Proposal projections released in June. However, the Budget Resolution Conference Agreement's spending projections are gross spending. There is no way to calculate the net spending under the Budget Resolution Conference Agreement without the Republicans' premium proposals, which have not been released.

MEDICARE SAVINGS
(Dollars in billions, fiscal years)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	96-00	96-02	96-05
ADMINISTRATION BASELINE														
Gross Spending (Including Premiums)	174.5	195.0	213.5	232.7	253.7	276.1	300.7	327.5	356.9	389.2	425.0			
<i>Growth</i>		11.7%	9.5%	9.0%	9.0%	8.8%	8.9%	8.9%	9.0%	9.0%	9.2%	9.1%	9.0%	9.0%
Net Spending (Excluding Premiums)	154.4	174.8	191.8	208.6	228.1	249.4	272.7	298.3	326.5	357.4	391.7			
<i>Growth</i>		13.2%	9.8%	8.7%	9.4%	9.3%	9.4%	9.4%	9.4%	9.5%	9.6%	9.3%	9.3%	9.4%
CBO BASELINE														
Gross Spending (Including Premiums)	178.0	198.6	219.1	240.1	263.1	287.8	315.0	345.0	379.0	416.0	458.0			
<i>Growth</i>		11.6%	10.3%	9.6%	9.6%	9.4%	9.5%	9.5%	9.9%	9.8%	10.1%	9.7%	9.6%	9.7%
Net Spending (Excluding Premiums)	158.1	178.7	197.5	215.9	237.3	260.8	286.6	315.2	347.2	381.1	423.8			
<i>Growth</i>		13.0%	10.5%	9.3%	9.9%	9.9%	9.9%	10.0%	10.2%	9.8%	11.2%	9.9%	9.9%	10.1%
Administration Proposal (Admin. Baseline)														
Gross Spending (Including Premiums)	174.5	191.7	208.0	223.5	238.1	253.6	270.8	289.2	312.2	335.4	359.1			
<i>Growth</i>		9.9%	8.5%	7.4%	6.6%	6.5%	6.8%	6.8%	7.9%	7.4%	7.1%	7.2%	7.1%	7.2%
Net Spending (Excluding Premiums)	154.4	171.5	186.3	199.4	212.6	226.9	242.8	260.0	281.7	303.5	325.8			
<i>Growth</i>		11.1%	8.6%	7.0%	6.6%	6.7%	7.0%	7.1%	8.3%	7.7%	7.3%	7.2%	7.2%	7.4%
Savings		-3	-6	-9	-16	-23	-30	-38	-45	-54	-66	-56	-124	-289
Budget Resolution Spending (CBO Baseline)														
Gross Spending (Including Premiums)	178	191	202	214	226	239	255	274	291	309	328			
<i>Growth</i>		7.3%	5.8%	5.9%	5.6%	5.8%	6.7%	7.5%	6.2%	6.2%	6.2%	5.8%	6.2%	6.2%
Savings		-8	-18	-27	-37	-49	-60	-71	-88	-107	-130	-139	-270	-595
Net Spending: NOT AVAILABLE														

NOTE: Estimates for 2003-2005 for the Budget Resolution were not available. The average growth rate was used to estimate the spending in those years.