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Hillary Rodham Clinton RL6

MEMORANDUM

TO: Hillary Rodham Clinton

April 17, 1998

FR: Chris Jennings

RE: Senator Kennedy's Employer Mandate Bill

cc: Melanne, Jen

Next Wednesday, Senator Kennedy is planning on introducing a health insurance mandate bill. This legislation, which is strongly supported by the Labor community, would require all firms with 50 or more employees to provide health insurance that is equivalent to the Federal Employees Health Benefit Plan's Blue Cross/Blue Shield standard option.

Senator Kennedy would of course love you or any other high ranking Administration official to join him in the introduction of his "Health Care for All" bill. However, his office indicated yesterday that they do not have great expectations that we will be able to do this. They are hoping and requesting, however, that we be as positive as possible about our public statements about the legislation. This memo provides some background information on the strengths and weaknesses of the bill, as well as my suggestion for our public position on it.

BACKGROUND

By requiring firms of over 50 or more employees to provide health insurance, Senator Kennedy's 8½ page bill would help less than half of the 41 million Americans who are uninsured. Covering so many Americans so quickly would be a remarkable achievement; it would be a much more efficient way to cover large numbers of the uninsured than the state incentive approach we took with the new Children's Health Insurance Program.

As you will recall, however, the hardest to reach and most disproportionately represented uninsured do not work or have families who work in these larger firms. As such, at least 20 million uninsured Americans would not be covered by Senator Kennedy's bill. Moreover, because his approach does not cover all employers or employees, it might well accelerate the trend for medium sized businesses to split or subcontract out to avoid providing health benefits. In addition, because it does not provide for any subsidies or cost containment provisions, some of the workers who would be required to pay 25 percent of the premiums might well find the insurance to be unaffordable.

Spending much capital on a bill that carries the "heavy lift" of an employer mandate, has serious policy shortcomings and has no chance of passing seems ill-advised. It could distract attention away from the "Patients' Bill of Rights" and play right into the hands of Republicans who are desperate to score political points using their "Clinton-Care, Government take-over" rhetoric.

RECOMMENDATION

We cannot and should not ever run away from our commitment to develop approaches to assure access to affordable, quality health coverage for all Americans. As such, even though Senator Kennedy's legislation is far from perfect, we clearly cannot not be critical of his bill. Having said this, there are ways to position ourselves that maintain our fundamental commitment to universal coverage without providing an outright endorsement of Senator Kennedy's bill. I would suggest that our public position on this bill should be something like this:

We welcome Senator Kennedy's bill to provide insurance coverage to millions of Americans. His commitment to this issue has been unwavering for decades, and we commend him for his work. Because we recognize that this Congress will not likely take up, much less pass, Senator Kennedy's bill, we believe we should focus most of our efforts this year on those initiatives we have the opportunity to pass this year -- tobacco, patients' bill of rights, and the President's Medicare buy-in proposal. As always, however, we stand willing to work with Senator Kennedy and other members from both sides of the aisle to develop new and long overdue insurance coverage options.

I hope you find this information to be useful. Please advise me if you have any concerns with the above recommendation.

p.s. We are working on the outlines of your Harvard Medical School commencement address. We will be talking with Ira, Paul Starr, Uwe Reinhardt, and others early next week to go over some ideas.

MEMORANDUM

TO: Interested Parties October 28, 1996

FROM: Chris Jennings
Jen Klein

SUBJ: Treasury Department's Monthly Report Shows Improvement in the Status of the Medicare HI Trust Fund

Earlier today (Monday), the Treasury Department released their monthly report on the financial status of the Medicare HI Trust Fund. In short, the Department concluded that the status of the Trust Fund for the month of September is about \$4 billion better than what was previously projected for this time period by the Medicare Trustees in June, and \$3.2 billion better than what we projected it would be in the mid-session review in August.

It remains unclear exactly why the Trust Fund projections have declined so much and we are still reviewing the reasons behind it. It is likely to be related to a late provider payment in August that reduced the September liability, decreases in health care inflation and increases in employment -- and thus increases in Medicare payroll contributions. **Having said this, there is still an operating deficit of \$4.2 billion -- greater than any deficit in recent years.**

The Republicans on the Hill are trying to use this report to bolster their position that the Trust Fund is getting worse every day and we have done nothing to "save" it. Although the press will inevitably use this as another excuse to hit us a bit, the print media (*NY Times*, *USA Today*, and *Washington Post*) seem to be mostly reporting that the real news the Republicans are ignoring is that the Trust Fund seems to be improving.

Our position on the release of this and every monthly Trust Fund report is that no one should read too much into these reports. And no one should use them in an attempt to needlessly scare the elderly into believing that bankruptcy is imminent. With over \$125 billion in surplus, it is simply not the case. Monthly reports represent little more than a picture in time and frequently do not reflect overall trends. [More to the point, in the absence of Medicare reforms, the Trust Fund will always -- over time -- get worse; as such, we have chosen to downplay even good news reports].

Attached is a one page set of talking points for your use. Please don't hesitate to call us at 456-5560 with any questions.

STATUS OF THE HOSPITAL INSURANCE TRUST FUND

In September 1996, the Medicare Hospital Insurance (HI) Trust Fund fared better than projected.

- The September Monthly Treasury Statement shows that the HI trust fund is about \$4 billion better off than projections by the Medicare Trustees (June) and \$3.2 billion better off than estimates by OMB in its Mid-Session Review (August).

In no way should this information be used to scare Medicare's 38 million elderly and disabled into thinking that Medicare will not pay their claims.

- Over \$125 billion remains in the Trust Fund. There is no imminent danger that claims will not be paid.

Although the report is encouraging, it does not reduce the need to work together on a bipartisan basis to strengthen the Medicare Trust Fund.

From the start, President Clinton has taken action to strengthen the Medicare trust fund.

- The President's 1993 Economic Plan extended the life of the Trust fund by 3 years -- without a single Republican vote.
- The President's balanced budget guarantees the life of the Medicare trust fund for at least a decade from today.
- The President's proposed Medicare reforms give beneficiaries more choices among private health plans, provide more preventive health care benefits, attack fraud and abuse, and cut the growth of provider payments without raising the Part B premium to 25 percent of program costs.

Q. What are the reasons behind this decline?
[USE ONLY IF PRESSED]

A. The reasons for the Trust Fund's improved status are unclear but are likely related to the improved economy and the overall reductions in medical inflation -- still we are reviewing all possible reasons].

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

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EMBARGOED FOR RELEASE AT 2:00 P.M., E.D.T. Treasury Contact: Calvin Mitchell
October 28, 1996 (202) 622-2920

OMB Contact: Lawrence J. Haas
(202) 395-7254

JOINT STATEMENT OF
ROBERT E. RUBIN,
SECRETARY OF THE TREASURY,
AND
FRANKLIN D. RAINES,
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET,
ON
BUDGET RESULTS FOR FISCAL YEAR 1996

SUMMARY

The Administration is today releasing the September Monthly Treasury Statement of Receipts and Outlays of the United States Government. The statement shows the actual financial totals for the fiscal year that ended September 30, 1996, as follows:

- a deficit of \$107.3 billion (1.4 percent of Gross Domestic Product (GDP));
- total receipts of \$1,452.8 billion (19.4 percent of GDP); and
- total outlays of \$1,560.1 billion (20.9 percent of GDP).

(MORE)

RR-1345

Table 1. TOTAL RECEIPTS, OUTLAYS AND DEFICITS
(in billions of dollars)

	<u>Receipts</u>	<u>Outlays</u>	<u>Deficits</u>
1995 Actual.....	1,351.5	1,515.4	-163.9
1996:			
March Budget Estimate.....	1,426.8	1,572.4	-145.6
Mid-Session Review Estimate.....	1,453.4	1,570.1	-116.8
Actual.....	1,452.8	1,560.1	-107.3

DEFICIT

The actual FY 1996 deficit is \$107.3 billion, down from the FY 1995 deficit of \$163.9 billion. The FY 1996 deficit figure is \$38.3 billion below the March Budget Estimate of \$145.6 billion, and \$9.4 billion lower than the \$116.8 billion deficit estimated in the Mid-Session Review (MSR). The changes from the MSR deficit estimate reflect the net impact of:

- a \$0.6 billion decrease in receipts; and
- a \$10.0 billion decrease in outlays.

RECEIPTS

Actual FY 1996 receipts were \$1,452.8 billion, \$0.6 billion lower than the MSR estimate. Lower-than-expected collections of excise taxes and miscellaneous receipts, partially offset by higher-than-expected collections of individual and corporation income taxes and social insurance taxes and contributions, accounted for most of this decrease relative to the MSR. Table 2 displays actual receipts and estimates from the Budget and MSR by source.

Changes in Receipts by Source

- Individual income taxes were \$656.4 billion, \$3.1 billion higher than the MSR estimate. Most of the difference is attributable to higher-than-estimated withheld and non-withheld payments and lower-than-estimated refunds, partially offset by an unanticipated adjustment between individual income taxes and the social security trust funds that reduced individual income taxes by \$1.3 billion.

- Corporation income taxes were \$171.8 billion, \$1.1 billion higher than the MSR estimate. Higher-than-anticipated estimated payments of 1996 liability by corporations accounted for most of the increase in this source of receipts.
- Social insurance taxes and contributions were \$1.1 billion higher than the MSR estimate of \$508.3 billion. Differences between actual and anticipated adjustments between the social security trust funds and individual income taxes increased this source of receipts relative to the MSR by \$1.3 billion. This increase was partially offset by lower-than-anticipated unemployment tax receipts of \$0.3 billion.
- Excise taxes were \$2.4 billion lower than the MSR estimate. Delay in enacting a temporary extension of the excise taxes deposited in the airport and airway trust fund and inaction on other Administration proposals reduced this source of receipts by \$0.7 billion. The remaining decrease in this source of receipts was attributable to unanticipated timing factors and lower-than-anticipated taxable activity.
- Miscellaneous receipts were \$4.1 billion lower than the MSR estimate. The Federal Communications Commission (FCC) reported receipts \$3.4 billion lower than the MSR estimate because of a change in the budgetary classification of the Universal Service Fund (see paragraph below on FCC outlays). This change in receipts was fully offset by a change in the outlays of the FCC, resulting in no change in the deficit. Lower-than-anticipated deposits of earnings by the Federal Reserve System, reflecting lower-than-expected asset values on securities denominated in foreign currencies, reduced this source of receipts by an additional \$0.4 billion.
- Other receipts, which include customs duties and estate and gift taxes, were \$35.9 billion, \$0.6 billion higher than the MSR estimate. Higher-than-expected customs duties, in large part attributable to delay in enacting the temporary extension of the Generalized System of Preferences provided to certain items imported from eligible developing countries, account for \$0.4 billion of the increase.

OUTLAYS

Total outlays were \$1,560.1 billion, \$10.0 billion lower than the MSR estimate. The major outlay changes since the MSR are described below. Table 3 displays actual outlays and estimates from the March Budget and the MSR by agency and major program.

Department of Agriculture. Actual outlays for the Department of Agriculture were \$54.3 billion, \$2.2 billion lower than the MSR estimate. Outlays for the Commodity Credit Corporation (CCC) were \$4.6 billion, \$0.5 billion below the MSR estimate. The difference stems primarily from lower commodity loan outlays, due in part to the crop damage resulting

from Hurricane Fran that reduced demand for the loans. In addition, CCC export guarantee program loan subsidies were lower than expected due to reduced demand for guarantees from overseas buyers. Actual outlays for Food and Consumer Services were \$37.4 billion, \$0.8 billion lower than the MSR estimate, due to lower-than-expected participation in the Food Stamp program. Other major differences resulted from lower-than-expected crop insurance and Foreign Agricultural Service outlays.

Department of Defense-Military. Actual outlays for the Department of Defense-Military were \$253.3 billion, \$1.5 billion lower than the MSR estimate. Uncertainty over Congressional responses to funding requests for U.S. operations in Bosnia resulted in slower-than-expected spending for other discretionary Operation and Maintenance activities.

Department of Energy. Actual outlays for the Department of Energy were \$16.2 billion, \$1.6 billion higher than the MSR estimate. The difference is mostly attributable to greater expenditure of prior year balances of no-year appropriations in the Department's nuclear weapons program than previously expected. Increased spendout of prior year and FY 1996 appropriations in the environmental cleanup program are also included in the difference. These two programs comprise the Department of Energy's Atomic Energy Defense Activities.

Department of Health and Human Services. Actual outlays for the Department of Health and Human Services were \$319.8 billion, \$4.7 billion lower than the MSR estimate.

Actual outlays for the Medicare program were \$196.6 billion, \$3.2 billion below the MSR estimate. Most of this reduction is attributable to lower-than-expected outlays for physician and hospital outpatient services in the Supplementary Medical Insurance program.

Actual outlays for the Medicaid program were \$92.0 billion, \$1.1 billion lower than estimated in the MSR. A number of factors may have contributed to lower-than-expected growth in Medicaid outlays. Medicaid spending in FY 1995 may have been unnaturally high, as States increased their spending in anticipation of Medicaid reform. Also in anticipation of Medicaid reform, State legislatures may have enacted cost-cutting measures, the effects of which may have been seen in the latter part of FY 1996. There have also been efforts to move more Medicaid beneficiaries into managed care contracts, which may be reducing spending. In addition, due to an improving economy and increased use of welfare waivers, there have been reductions in States' welfare case loads, leading to lower Medicaid outlays.

Actual outlays for the Public Health Service agencies were \$21.4 billion, \$0.5 billion above the MSR estimate. Outlays for the Health Resources and Services Administration and National Institutes of Health showed the greatest differences from earlier estimates.

Department of Housing and Urban Development. Actual outlays for the Department of Housing and Urban Development were \$25.5 billion, \$0.8 billion below the MSR estimate.

The difference resulted from both higher-than-expected income, as heavy demand for Government National Mortgage Association mortgage-backed securities generated revenue from fees, and lower-than-expected spending, as projected expenditures for the Community Development Block Grant program were delayed until FY 1997.

Department of Labor. Actual outlays for the Department of Labor were \$32.5 billion, \$1.4 billion lower than the MSR estimate. Training and Employment Services accounted for \$0.5 billion of the shortfall. The FY 1995 rescissions and delays in enacting the FY 1996 appropriation created great uncertainty in job training program planning, resulting in lower-than-projected spending. Spending from the Unemployment Trust Fund, which finances spending for unemployment insurance, was \$0.7 billion below the MSR estimate, largely because unemployment was lower than assumed in the MSR.

Department of Transportation. The Department of Transportation's actual outlays were \$38.8 billion, \$1.0 billion below the MSR estimate. Outlays for the Federal Highway Administration were \$20.0 billion, \$0.9 billion lower than projected due to fewer requests for reimbursements by States than estimated. Outlays for the Maritime Administration were also \$0.2 billion below the MSR estimate.

Department of the Treasury. Actual outlays for the Department of the Treasury were \$365.3 billion, \$1.0 billion below the MSR estimate. Actual outlays for the IRS were \$0.8 billion less than the MSR estimate because less interest was paid on refunds than projected based on prior year trends. Outlays for net interest, including interest received by trust funds and other accounts outside the Treasury Department, were \$241.1 billion (see table 9 of the Monthly Treasury Statement), \$0.3 billion below the MSR estimate.

Department of Veterans Affairs. Actual outlays for the Department of Veterans Affairs were \$36.9 billion, \$0.8 billion below the MSR estimate. Approximately \$0.4 billion of the difference is attributed to some medical care program spending that was slower than expected; the slightly slower spending did not effect services. Spending for veterans life insurance programs was also slightly below the MSR estimate.

Social Security Administration. Actual outlays for the Social Security Administration were \$375.2 billion, \$1.5 billion below the MSR estimate. Outlays for Old Age, Survivors and Disability Insurance were lower than the MSR estimate. Most of this difference is due to lower enrollment than estimated in the MSR. Overpayment collections were also higher than expected, reducing net benefit outlays.

Federal Communications Commission. Actual outlays for the Federal Communications Commission (FCC) were \$1.0 billion, \$4.6 billion less than the MSR estimate. Outlays for the FCC Universal Service Fund (USF) were \$0.9 billion, \$3.4 billion lower than MSR estimates. This change in outlays was fully offset by a change in receipts, resulting in no change in the deficit. For the first time, the 1997 Budget classified receipts and spending for

the USF as budgetary. Although there is no disagreement as to the appropriateness of inclusion of the fund in the budget totals, the issue of which deposits to classify as budgetary is not resolved. The Budget, and the subsequent MSR, used a broad definition of the fund, incorporating all transactions of the National Exchange Carriers Association (NECA). The NECA's reporting of USF data for the Monthly Treasury Statement uses a more narrow definition; access service charges and payments are not included. The remaining difference, \$1.2 billion, is mostly due to the delay, caused by litigation, in granting C block spectrum licenses.

Federal Emergency Management Agency. Actual outlays for the Federal Emergency Management Agency were \$3.1 billion, \$1.4 billion less than the MSR estimate. Funds obligated for certain large public infrastructure and hazard mitigation projects did not outlay as expected in FY 1996, and are ongoing. All emergency response needs are continuing to be met.

Deposit Insurance. Spending for deposit insurance was \$2.1 billion above the MSR estimate. Net outlays for the Bank Insurance Fund were \$1.4 billion above the MSR estimate. This difference is primarily due to lower-than-expected asset recoveries. Net outlays for the Federal Savings and Loan Insurance Corporation Resolution Fund were about \$0.8 billion above the MSR estimate. The difference is primarily due to lower-than-expected receipts from the sale of assets formerly held by the Resolution Trust Corporation.

Undistributed Offsetting Receipts. Actual undistributed offsetting receipts were \$135.6 billion, \$9.9 billion below the MSR estimate (increasing outlays).

Spectrum collections were only \$0.3 billion, \$11.0 billion below the MSR. The MSR assumed the licenses associated with the C block spectrum auction would be granted in fiscal year 1996. However, litigation on a large majority of the licenses delayed the granting of all licenses. The litigation is not yet settled, but the FCC has recently begun to grant the unencumbered licenses. While our estimate of total revenue has not been reduced, the timing of revenue from the licenses currently under litigation is uncertain. We currently estimate that the revenue will be deposited in the Treasury toward the end of fiscal year 1997 or early 1998.

Other undistributed offsetting receipts were \$1.1 billion higher (decreasing outlays) than MSR estimates. Rents and royalties on the Outer Continental Shelf (OCS) were \$3.7 billion, \$0.6 billion more than MSR estimates. Most of the difference is because oil and gas prices and OCS production were higher than anticipated, resulting in greater royalties collected than estimated in the MSR. Interest payments received by on-budget trust funds were \$61.5 billion, \$0.5 billion higher than the MSR estimate. The largest difference was in the Military Retirement Trust Fund, which underestimated interest earnings by \$0.6 billion.

Funds Appropriated to the President. Actual outlays of funds appropriated to the President were \$9.7 billion, approximately equal to the MSR estimate. There were, however, offsetting differences. Actual outlays for International Monetary Programs were \$0.7 billion, \$0.7 billion above MSR estimates. This difference is explained by valuation changes in the U.S. reserve position (which is similar to a deposit) in the International Monetary Fund (IMF). The valuation losses are accounted for as an outlay because they represent an unrealized loss on an asset.

These additional outlays are offset by the Economic Support Fund and Peacekeeping Operations and military sales programs. Outlays for the Economic Support Fund and Peacekeeping Operations were \$0.4 billion below MSR estimates. Much of this difference is attributable to delays with Economic Support Fund payments. Outlays for military sales programs were \$0.3 billion below MSR estimates.

Table 2.--1996 BUDGET RECEIPTS BY SOURCE
(fiscal years; in millions of dollars)

	1995 Actual	1996 Estimate		1996 Actual	Change, 1996 Actual to:	
		Budget	Mid-Session		Budget	Mid-Session
Individual income taxes.....	590,243	630,873	653,335	656,417	25,544	3,082
Corporation income taxes.....	157,004	167,108	170,708	171,824	4,716	1,116
Social insurance taxes and contributions:						
Employment taxes and contributions:						
On-budget.....	99,966	105,745	107,340	108,870	3,125	1,530
Off-budget.....	351,080	367,441	367,691	367,492	51	-199
Subtotal, Employment taxes and contributions.....	451,046	473,186	475,031	476,362	3,176	1,331
Unemployment insurance.....	28,878	29,810	28,845	28,584	-1,226	-261
Other retirement contributions.....	4,550	4,539	4,448	4,469	-70	21
Subtotal, Social insurance taxes and contributions.....	484,474	507,535	508,324	509,415	1,880	1,091
Excise taxes.....	57,484	53,886	56,413	54,015	129	-2,398
Estate and gift taxes.....	14,763	15,924	16,975	17,189	1,265	214
Customs duties.....	19,300	19,313	18,307	18,671	-642	364
Miscellaneous receipts.....	28,226	32,136	29,288	25,232	-6,904	-4,056
Total, Receipts.....	1,351,495	1,426,775	1,453,350	1,452,763	25,988	-587
On-budget.....	1,000,415	1,059,334	1,085,659	1,085,271	25,937	-388
Off-budget.....	351,080	367,441	367,691	367,492	51	-199

Table 3.--1996 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

Outlays by Major Agency	1995 Actual	1996 Estimate		Actual	Change, 1996 Actual to:	
		Budget	Mid-Session		Budget	Mid-Session
IRS:						
Earned income tax credit.....	15,244	18,124	19,071	19,159	1,035	88
Other.....	10,373	10,323	10,315	9,436	-887	-879
Proprietary receipts from the public and credit financing account transactions.....	-2,954	-3,618	-3,428	-3,903	-285	-475
Claims, judgments, and relief acts payments.....	1,104	1,000	1,000	509	-491	-491
Other.....	-5,234	-3,446	-3,144	-2,184	1,262	980
Subtotal, Treasury.....	348,480	364,956	366,300	365,330	374	-970
Department of Veterans Affairs.....	37,769	37,606	37,751	36,915	-691	-836
Environmental Protection Agency.....	6,349	6,329	6,286	6,046	-283	-240
General Services Administration.....	709	469	682	625	156	-57
National Aeronautics and Space Administration.....	13,377	14,190	14,215	13,882	-308	-333
Office of Personnel Management.....	41,279	42,374	42,471	42,872	498	401
Small Business Administration.....	678	957	1,027	872	-85	-155
Social Security Administration:						
Old age and survivors insurance (off-budget).....	294,474	306,210	306,020	305,461	-749	-559
Disability insurance (off-budget).....	41,380	45,086	45,008	44,558	-508	-450
Supplemental security income program.....	26,488	26,621	26,312	26,074	-547	-238
Other:						
On-budget.....	5,367	5,473	5,508	5,291	-182	-217
Off-budget.....	-5,484	-6,115	-6,145	-6,152	-37	-7
Subtotal, Social Security Administration.....	362,226	377,255	376,703	375,232	-2,023	-1,471
Other independent agencies:						
Major deposit insurance agencies:						
Federal Deposit Insurance Corporation:						
Bank insurance fund.....	-6,916	-1,531	-2,462	-1,088	443	1,374
Savings association insurance fund.....	-1,101	-5,886	-988	-1,059	4,827	-71
FSLIC resolution fund and RTC f.....	-9,546	-5,880	-6,804	-6,027	-147	777
Other FDIC.....	5	1	1	1	0	0
Subtotal, Federal Deposit Insurance Corporation.....	-17,558	-13,296	-10,253	-8,173	5,123	2,080
National Credit Union Administration.....	-275	-182	-182	-179		3
Subtotal, major deposit insurance agencies.....	-17,833	-13,478	-10,435	-8,352	5,123	2,083
District of Columbia.....	709	700	700	701	1	1
Export-Import Bank.....	-53	-559	-565	-560	-1	5
Federal Communications Commission.....	935	4,328	5,542	978	-3,350	-4,564
Federal Emergency Management Agency.....	3,137	4,612	4,510	3,102	-1,510	-1,408
National Science Foundation.....	2,847	3,066	3,067	3,012	-54	-55
Postal Service:						
On-budget.....	130	122	122	122	-8	-8
Off-budget.....	-1,969	-311	-311	-626	-315	-315
Subtotal, Postal Service.....	-1,839	-189	-189	-504	-315	-315

Table 3.—1996 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

	1995 Actual	1996 Estimate		Actual	Change, 1996 Actual to:	
		Budget	Mid-Session		Budget	Mid-Session
Outlays by Major Agency						
Legislative Branch.....	2,621	2,695	2,695	2,272	-423	-423
The Judiciary.....	2,903	3,297	3,297	3,051	-236	-236
Executive Office of the President.....	213	206	203	202	-4	-1
Funds Appropriated to the President:						
International Security Assistance:						
Foreign Military Financing.....	2,933	3,327	2,827	2,946	-381	119
Economic Support Fund and Peacekeeping.....	2,820	2,667	2,667	2,311	-356	-356
Other.....	-801	-969	-919	-1,002	-33	-83
Agency for International Development.....	3,252	2,901	2,924	3,059	158	135
Multilateral assistance.....	2,194	2,204	2,122	2,077	-127	-45
Military sales programs.....	862	3	-261	-562	-565	-301
International monetary programs.....	-265	19	19	694	675	675
Other.....	169	293	293	194	-99	-99
Subtotal, Funds Appropriated to the President.....	11,164	10,445	9,672	9,716	-729	44
Agriculture:						
Farm Service Agency:						
Commodity Credit Corporation.....	6,030	3,199	5,144	4,646	1,447	-498
Federal Crop Insurance Corporation.....	387	2,006	2,071	1,760	-246	-311
Conservation programs.....	1,905	2,010	1,924	1,856	-154	-68
Other.....	720	4	3	88	84	85
Foreign Agriculture Service.....	1,095	889	910	612	-277	-298
Rural Housing and Community Development Service.....	2,125	1,652	1,655	1,441	-211	-214
Food and Consumer Service.....	36,967	38,756	38,213	37,386	-1,370	-827
Forest Service.....	3,785	3,151	3,357	3,411	260	54
Other.....	3,673	3,173	3,221	3,138	-35	-83
Subtotal, Agriculture.....	56,667	54,840	56,498	54,339	-601	-2,159
Commerce.....	3,403	3,789	3,762	3,703	-86	-59
Defense-Military.....	259,565	254,325	254,803	253,258	-1,087	-1,545
Defense-Civil.....	31,664	32,255	32,338	32,535	280	197
Education:						
Office of Elementary and Secondary Education.....	9,144	10,153	9,781	9,569	-584	-212
Other.....	22,177	20,251	20,422	20,331	80	-91
Subtotal, Education.....	31,321	30,404	30,203	29,900	-504	-303
Energy:						
Atomic energy defense activities.....	11,763	10,227	10,217	11,627	1,400	1,410

Table 3.-1996 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

Outlays by Major Agency	1995 Actual	1996 Estimate		1996 Actual	Change, 1996 Actual to:	
		Budget	Mid-Session		Budget	Mid-Session
Other.....	5,855	4,451	4,394	4,572	121	178
Subtotal, Energy.....	17,618	14,678	14,511	16,199	1,521	1,588
Health and Human Services:						
Medicare (gross outlays).....	180,096	197,428	199,807	196,629	-799	-3,178
Medicaid.....	89,070	94,892	93,065	91,990	-2,902	-1,075
Public Health Service.....	20,728	20,888	20,881	21,405	517	524
Family Support Payments to States.....	17,133	17,366	16,909	16,670	-696	-239
Other Administration for Children and Families.....	14,860	15,509	14,817	14,353	-1,156	-464
Other.....	-18,812	-18,654	-20,980	-21,246	-2,592	-266
Subtotal, Health and Human Services.....	303,075	327,429	324,499	319,802	-7,627	-4,697
Housing and Urban Development:						
Housing payments.....	22,155	20,719	21,115	21,272	553	157
Federal Housing Administration funds.....	-1,115	100	-1,234	-3,574	-3,674	-2,340
Government National Mortgage Association.....	-456	-463	-463	-563	-100	-100
Community development grants.....	4,333	5,093	4,893	4,545	-548	-348
Proprietary receipts from the public.....	-843	-4,556	-3,450	-1,181	3,375	2,269
Other.....	4,972	5,539	5,492	5,013	-526	-479
Subtotal, Housing and Urban Development.....	29,045	26,432	26,353	25,512	-920	-841
Interior:						
Interior.....	7,390	6,939	6,988	6,720	-219	-268
Justice:						
Justice.....	10,786	12,964	12,386	11,951	-1,013	-435
Labor:						
Training and employment services.....	4,690	4,846	4,830	4,296	-550	-534
Unemployment trust fund.....	25,205	27,431	26,800	26,146	-1,285	-654
Pension Benefit Guaranty Corporation.....	-430	-858	-643	-851	7	-208
Other.....	2,628	2,985	2,906	2,904	-81	-2
Subtotal, Labor.....	32,093	34,404	33,893	32,496	-1,908	-1,397
State:						
State.....	5,347	5,500	5,385	4,953	-547	-432
Transportation:						
Federal Highway Administration.....	19,501	20,438	20,838	19,978	-460	-860
Federal Transit Administration.....	4,437	4,471	4,471	4,373	-98	-98
Federal Aviation Administration.....	9,206	8,551	8,899	8,925	374	26
Coast Guard.....	3,670	3,631	3,628	3,663	32	35
Maritime Administration.....	446	465	465	306	-159	-159
Other.....	1,516	1,438	1,459	1,530	92	71
Subtotal, Transportation.....	38,776	38,994	39,760	38,777	-217	-983
Treasury:						
Exchange Stabilization Fund.....	-2,467	-2,055	-2,055	-1,643	412	412
Interest on the public debt.....	332,414	344,628	344,541	343,955	-673	-586

Table 3.-1996 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

	1995 Actual	1996 Estimate		Actual	Change, 1996 Actual to:	
		Budget	Mid-Session		Budget	Mid-Session
Outlays by Major Agency						
Railroad Retirement Board.....	4,359	4,730	4,902	5,007	277	105
Tennessee Valley Authority.....	1,313	741	641	757	16	116
Other (net).....	4,954	5,241	4,976	4,438	-803	-538
Subtotal, other independent agencies.....	-1,470	9,192	13,149	8,577	-615	-4,572
Allowances.....	0	-647	-322	0	647	322
Undistributed offsetting receipts:						
Employer share, employee retirement (on-budget).....	-27,961	-27,138	-27,154	-27,259	-121	-105
Employer share, employee retirement (off-budget).....	-6,432	-6,291	-6,278	-6,277	14	1
Interest received by on-budget trust funds.....	-59,875	-61,158	-61,055	-61,521	-363	-466
Interest received by off-budget trust funds.....	-33,304	-36,440	-36,515	-36,508	-68	7
Rents and royalties on the Outer Continental Shelf lands.....	-2,418	-2,689	-3,117	-3,741	-1,052	-624
Spectrum auction receipts.....	-7,644	-4,350	-11,389	-342	4,008	11,047
Sale of major assets.....	0	-1,800	0	0	1,800	0
Other.....	-1	0	0	-1	-1	-1
Subtotal, undistributed offsetting receipts.....	-137,635	-139,866	-145,508	-135,649	4,217	9,859
Total, Outlays.....	1,515,412	1,572,411	1,570,100	1,560,094	-12,317	-10,006
On-budget.....	1,226,747	1,270,292	1,268,321	1,259,638	-10,654	-8,683
Off-budget.....	288,665	302,119	301,779	300,455	-1,664	-1,324
Deficit (-).....	-163,917	-145,636	-116,750	-107,331	38,305	9,419
On-budget.....	-226,332	-210,958	-182,662	-174,367	36,591	8,295
Off-budget.....	62,415	65,322	65,912	67,036	1,714	1,124

1/ Includes Oversight Board.

NOTE: Detail may not add to totals due to rounding.

MEMORANDUM

September 25, 1996

TO: Distribution

FROM: Chris Jennings and Jen Klein

SUBJ: Monthly Report on State of Medicare Trust Fund

The Department of the Treasury released a monthly report on the state of the Medicare Trust Fund. As expected, outlays exceeded revenues by about \$3.3 billion. Republicans, particularly Ways & Means Subcommittee Chairman Thomas, may try to use these numbers to allege our mismanagement of the Trust Fund. Although we have not received any specific criticisms since the release of the report, this issue may be raised during the Presidential debates.

Suggested talking points are attached. Please note that the talking points mirror our response to similar criticisms in the past.

We hope that you find this information helpful. If you have any questions, please call us.

9/24/96

FOR INTERNAL USE ONLY

STATUS OF HOSPITAL INSURANCE TRUST FUND

As anticipated, the Medicare Hospital Insurance (HI) trust fund experienced a cash-flow deficit in August 1996.

- The August Monthly Treasury Statement shows that the HI trust fund had total income of \$8.1 billion and total expenditures of \$11.4 billion, for a deficit of \$3.3 billion.

The status of the HI trust fund balance is in line with the estimates released in this year's Trustees Report and the Mid-Session Review.

In no way should this information be used to scare seniors and the disabled into thinking that Medicare will not pay their claims.

- Over \$123 billion remains in the Trust Fund. There is no imminent danger that claims will not be paid.

From the start, President Clinton has taken action to strengthen the Medicare trust fund.

- The President's 1993 Economic Plan extended the life of the Trust Fund by 3 years -- *without a single Republican vote.*
- The President's balanced budget guarantees the life of the Medicare trust fund for at least a decade.
- The President's proposed Medicare reforms give seniors more choices among private health plans, attack fraud and abuse, cut the growth of provider payments while holding the Part B premium to 25 percent of program costs.

Monthly Status of Hospital Insurance Trust Fund, FYs 95 and 96

FY 95	Surplus/Deficit	HI Fund	FY 96	Surplus/Deficit	HI Fund
October	-0.260	129.3	October	-1.917	127.6
November	-0.718	128.6	November	-1.236	126.4
December	4.266	132.8	December	3.900	130.3
January	0.577	133.4	January	-0.614	129.7
February	-1.399	132.0	February	-3.151	126.5
March	-2.601	129.4	March	-1.230	125.3
April	4.167	133.6	April	4.685	130.0
May	-2.670	130.9	May	-6.612	123.3
June	3.559	134.5	June	6.766	130.1
July	-0.683	133.8	July	-3.290	126.8
August	-3.153	130.6	August	-3.289	123.5
September	-1.121	129.5	September		
Cumulative Total	-0.036		Cumulative Total	-5.988	

Comparison of OMB and CBO Baselines
June 1995 through July 1996
(Dollars in Billions)

		<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>Total 1996 - 2002</u>
Round 1 - June 1995									
FY 1996 President's Budget Baseline		96.0	104.6	114.5	125.0	136.9	149.8	163.8	890.5
	<i>Growth</i>		9.0%	9.5%	9.2%	9.5%	9.4%	9.4%	9.3%
CBO March 1995 Baseline		99.2	110.0	122.0	134.8	148.1	162.7	177.8	954.6
	<i>Growth</i>		10.9%	10.9%	10.5%	9.9%	9.9%	9.3%	10.2%
Difference		-3.2	-5.4	-7.5	-9.8	-11.2	-12.9	-14.0	-64.1
	<i>Growth</i>		-1.9%	-1.4%	-1.3%	-0.3%	-0.5%	0.1%	-0.9%
Round 2 - March 1996									
FY 1997 President's Budget Baseline		94.9	102.3	112.0	121.8	133.2	145.6	159.4	869.0
	<i>Growth</i>		7.8%	9.4%	8.7%	9.4%	9.3%	9.5%	9.0%
CBO December 1995 Baseline		97.2	107.2	118.1	129.7	142.5	156.8	172.6	924.2
	<i>Growth</i>		10.3%	10.2%	9.8%	9.9%	10.0%	10.1%	10.0%
Difference		-2.3	-4.9	-6.1	-8.0	-9.4	-11.2	-13.2	-55.1
	<i>Growth</i>		-2.5%	-0.7%	-1.1%	-0.5%	-0.7%	-0.6%	-1.0%
Round 3 - July 1996									
FY 1997 Mid-Session Review Baseline		93.1	99.8	108.7	117.9	128.9	140.7	153.9	843.0
	<i>Growth</i>		7.3%	8.9%	8.5%	9.3%	9.2%	9.4%	8.7%
CBO April 1996 Baseline		95.7	105.1	115.4	126.4	138.2	151.5	166.4	898.7
	<i>Growth</i>		9.8%	9.9%	9.5%	9.3%	9.7%	9.9%	9.7%
Difference		-2.7	-5.3	-6.7	-8.4	-9.3	-10.8	-12.6	-55.7
	<i>Growth</i>		-2.5%	-0.9%	-1.0%	-0.1%	-0.5%	-0.5%	-0.9%

Comparison of President's and Congressional Medicaid Proposals
President's Proposals Scored off of OMB Baselines
Congressional Proposals Scored off of CBO Baselines
(Dollars in Billions)

	Total
	<u>1996 - 2002</u>
<u>POTUS Balanced Budget Offer - 6/95</u>	
FY 1996 President's Budget Baseline	890.5
<i>Growth</i>	9.3%
June 1995 Medicaid Savings	-54.0
Resulting Baseline	836.5
<i>Growth</i>	8.5%
<u>Senate-Passed Reconciliation Bill - 11/95</u>	
CBO March 1995 Baseline	954.6
<i>Growth</i>	10.2%
Senate-Passed Reconciliation Medicaid Savings	-172.1
Resulting Baseline	782.5
<i>Growth</i>	3.8%
<u>FY 1997 President's Budget - 3/96</u>	
FY 1997 President's Budget Baseline	869.0
<i>Growth</i>	9.0%
FY 97 PB Medicaid Savings	-58.7
Resulting Baseline	810.3
<i>Growth</i>	5.7%
<u>MediGrant II - 3/95</u>	
CBO December 1995 Baseline	924.2
<i>Growth</i>	10.0%
MediGrant II Medicaid Savings	-85.2
Resulting Baseline	839.0
<i>Growth</i>	5.0%
<u>FY 1997 Mid-Session Review - 7/96</u>	
FY 1997 Mid-Session Review Baseline	843.0
<i>Growth</i>	8.7%
FY 97 MSR Medicaid Savings	-58.7
Resulting Baseline	784.3
<i>Growth</i>	5.3%
<u>House Commerce Medicaid Bill - 6/96</u>	
CBO April 1996 Baseline	898.7
<i>Growth</i>	9.7%
House Commerce Committee Medicaid Savings	-71.5
Resulting Baseline	827.2
<i>Growth</i>	6.1%

~~53.7~~ 53.7
 845.

Comparison of OMB and CBO Baselines
June 1995 through July 1996
(Dollars in Billions)

		Total
		<u>1996 - 2002</u>
<u>Round 1 - June 1995</u>		
FY 1996 President's Budget Baseline		890.5
	<i>Growth</i>	9.3%
CBO March 1995 Baseline		954.6
	<i>Growth</i>	10.2%
Difference		-64.1
	<i>Growth</i>	-0.9%
<hr/>		
<u>Round 2 - March 1996</u>		
FY 1997 President's Budget Baseline		869.0
	<i>Growth</i>	9.0%
CBO December 1995 Baseline		924.2
	<i>Growth</i>	10.0%
Difference		-55.1
	<i>Growth</i>	-1.0%
<hr/>		
<u>Round 3 - July 1996</u>		
FY 1997 Mid-Session Review Baseline		843.0
	<i>Growth</i>	8.7%
CBO April 1996 Baseline		898.7
	<i>Growth</i>	9.7%
Difference		-55.7
	<i>Growth</i>	-0.9%

NEC MEDICARE COMMISSION PRINCIPALS' MEETING

Roosevelt Room; 3:15pm

February 22, 1999

AGENDA

I. PREMIUM SUPPORT (15 minutes)

- **Policy**
- **Politics**

II. OPTIONS (45 minutes)

- **Guidance for Upcoming Commission Meetings**
- **Response to Commission Vote**

POLICY PROS AND CONS OF PREMIUM SUPPORT

OLD -
per your
Request

PROS

- **Would likely reduce Medicare costs through competition.** Premium support encourages beneficiaries to choose lower cost health plans by giving them a financial incentive to do so. Depending on how premium support is structured, efficient plans can attract beneficiaries by offering lower premiums or additional benefits. As beneficiaries move to lower-cost plans, the national average Medicare spending is reduced (or doesn't grow as fast as it would have), thus reducing Federal Medicare costs over time.
- **Better aligns Medicare with private health insurance.** Today, Congress and the President must make explicit changes to Medicare reimbursement levels to control program costs. While over time the growth in Medicare has roughly matched private health insurance growth, cost control is cumbersome and subject to significant political constraints. Under premium support, Medicare spending is more dependent on the ability of private plans to achieve efficiency, which should more closely align the growth of future government Medicare spending with the overall level of efficiency achieved by private health insurers.
- **Gives beneficiaries more choices.** Today, beneficiaries enroll in managed care plans because, in some areas, those plans can offer extra, free benefits. Under this proposal, beneficiaries can lower their Medicare premiums by enrolling in low-cost plans and, under some proposals, also get some extra benefits. Premium support also has the potential to attract more private plans to participate in Medicare or extend their market area, since they would have new flexibility to use financial incentives to attract beneficiaries.

CONS

- **Puts beneficiaries at risk for higher fee-for-service premiums and less stable private plan premiums.** Under premium support, the Medicare fee-for-service premium would likely be higher than that of private plans -- especially if traditional Medicare is not allowed to use the same management tools as private plans. This could be exacerbated if sicker people stay in fee-for-service, driving up costs. Also, beneficiaries choosing private plans could face premiums that vary considerably from year to year, similar to what happens in the private sector. This instability could cause anxiety for beneficiaries.
- **Could reduce extra benefits that current Medicare managed care enrollees receive.** Currently, Medicare managed care plans compete for enrollment by offering beneficiaries additional benefits such as lower cost sharing, preventive care, and outpatient prescription drugs. Under premium support, a greater share of the efficiency savings accrue to the government, reducing the amount that can be provided as additional benefits.
- **Significant regulation would be required to avoid two-tiered Medicare.** To promote competition based on price and quality -- rather enrollment of the healthiest beneficiaries -- significant new rules and oversight would be needed. Without such rules, or because of imperfect implementation, premium support could have the unintended effects of creating higher premiums for people who are sick and low-income.

POLITICAL PROS AND CONS OF SUPPORTING PREMIUM SUPPORT

PROS

- **Increases the likelihood of bipartisan agreement on Medicare -- and Social Security.** Without premium support, it is unlikely that Republicans will consider any type of Medicare legislation -- including a bill that includes the surplus or a prescription drug benefit.
- **Enhances credibility as real reformers, increases elite validation.** Most economist and elite media consider premium support "real" reform. An openness to it would end Republican criticism that we only want an election issue or only more revenues and benefits for Medicare.
- **Although still challenging, would increase the likelihood of a drug benefit for all beneficiaries and new purchasing tools for the traditional program.** Republicans will clearly not consider either a drug benefit or the modernization proposals for Medicare fee-for-service without premium support. Thus, an openness to premium support could open the door to these desired changes.
- **Winning a drug benefit and the dedication of the surplus in return for premium support may be a good trade.** The complexity and controversy surrounding premium support will necessitate it being phased in and otherwise altered. Therefore, it is likely the surplus transfer would begin in 2000, the drug benefit in 2001, but premium support on a more phased-in basis. Thus, we could get credit for being supportive without having to address its immediate effects.
- **Defining acceptable premium support at the beginning of the debate could give us more credibility in opposing it if, at the end, Congress passes a flawed version.** . An early openness to premium support may prevent criticism that we only signed onto this idea because we want to get prescription drugs. It could also offer us the opportunity to define what a good premium support plan would be -- laying the groundwork for a veto if necessary.

CONS

- **Lose the opportunity to end the momentum toward a Commission recommendation that will likely produce a flawed premium support and inadequate prescription drug benefit.**
- **Will alienate Democratic base, particularly in the House, which is concerned that premium support undermines Medicare's guarantees.** Base Democrats generally think that the risk of something bad coming out of any negotiation far exceeds any potential for a positive outcome -- even if that means a prescription drug benefit. Moreover, they believe that a Medicare compromise will help the Republican party far more than the Democratic party in 2000.
- **Even if accompanied by a drug benefit and the surplus, the fear of higher premiums and elderly dissatisfaction may outweigh benefits.** High costs and less certainty will always be much more threatening and politically volatile to the elderly than the promise of a new benefit. This is particularly the case given the low odds that a good drug benefit and premium support proposal could emerge from a Republican Congress.
- **Weakens our leverage during the legislative process and could make it difficult to oppose premium support at the end of the process -- particularly if included in a broader reconciliation.** The only message that the public will hear will be our support for premium support. Once that message is solidified, it will be extremely difficult to justify any opposition to premium support, no matter how flawed the particular proposal. Such opposition would be considered a political rather than substantive.
- **Opposition to premium support could unify beneficiary and provider groups.** Political weapon.

OPTIONS FOR FEBRUARY 23, 24 MEETINGS

IF COMMITMENT THAT THE PLAN THAT WILL BE VOTED ON INCLUDES SURPLUS, DRUG BENEFIT, DEFINED BENEFITS:

- **Work to improve details**

IF NO COMMITMENT THAT PLAN THAT WILL BE VOTED ON INCLUDES SURPLUS, DRUG BENEFIT, DEFINED BENEFITS:

1. Rest on principles

PROS

- Slows down momentum for flawed Breaux plan.
- Probably the most acceptable to Congressional Democrats who want neither a plan nor an extension of the Commission.
- Sets the stage for a specific plan by the President.

CONS

- Would be criticized by Breaux, Republicans and elite media as evidence of our interest in the status quo rather than reform.
- Undermines chances for a reasonable compromise with Republicans on Medicare reform.

2. Develop an alternative that includes premium support

PROS

- Extricates ourselves from the Commission process while maintaining support for premium support, which will be validated by elites as "true" reform.
- Increases the likelihood that the elite media will critique and undermine the work product of the Commission.
- Could serve as a trial balloon for an Administration proposal.

CONS

- Probably impossible to get base Congressional Democrats to agree on a plan with premium support.
- Onus of developing a viable Medicare reform package falls completely on us; there would therefore be no bipartisan political cover for controversial provisions. Also, may not be feasible given its complexity in a short time frame.
- Preempts the option of a proposal by the President.

3. Develop an alternative that includes the common denominator provisions, states an openness to premium support that is consistent with principles.

PROS

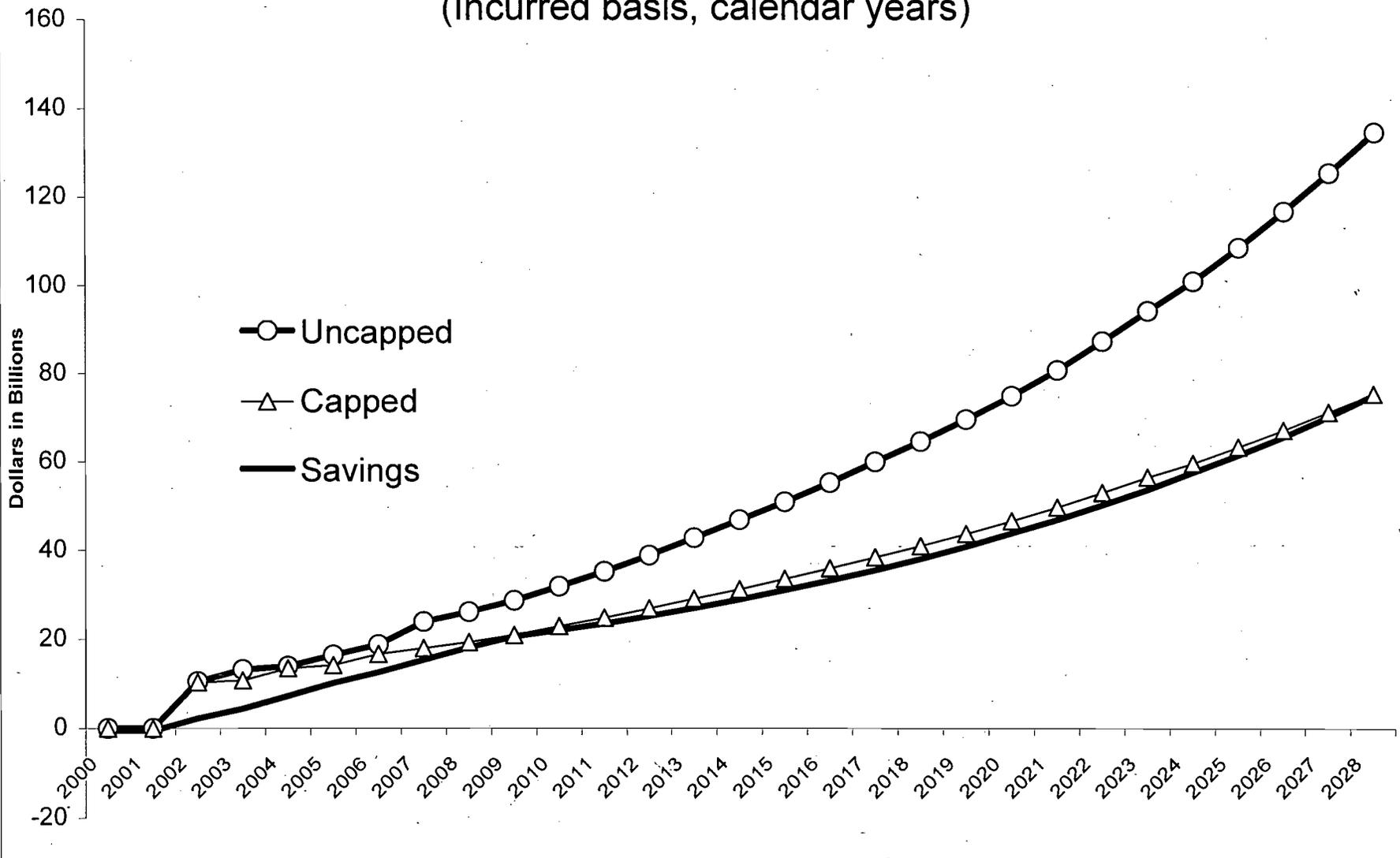
- Extricates ourselves from the Commission process without having to lay out all the details of a controversial and difficult to design premium support plan.
- We might be able to maintain elite support if Laura and Stuart suggest that we are seriously open to a premium support option.
- Gives us the time to find common ground between base Democrats and moderate Republicans and Democrats on premium support.

CONS

- Just as serious likelihood that elites will critique us as not being serious.
- Democrats will still be nervous that we are validating premium support as a credible reform proposal.

Trends in Prescription Drug Benefit Costs & Savings

(Incurred basis, calendar years)



CJ.

MEDICARE OPTIONS

(Dollars in billion, 2000-2009)

OPTION 1	OPTION 2	OPTION 3	OPTION 4
Savings:	Savings:	Savings:	Savings:
Managed Care Competition -8	Managed Care Competition -8	Managed Care Competition -8	Managed Care Competition -8
Modernize Traditional MCR -25	Modernize Traditional MCR -25	Modernize Traditional MCR -25	Modernize Traditional MCR -25
Provider Savings* -42	Provider Savings* -42 <i>includes interactions.</i>	Provider Savings* -42	Provider Savings* -42
Set-aside for BBA fixes <u>+7.5</u>	Set-aside for BBA fixes <u>Drop</u>	Set-aside for BBA fixes <u>+7.5</u>	Set-aside for BBA fixes <u>+10</u>
No Preventive Copays +3	No Preventive Copays +3	No Preventive Copays +3	No Preventive Copays +3
Add 20% Lab Copay -9	Add 20% Lab Copay -9	Add 20% Lab Copay -9	Add 20% Lab Copay -9
Income-Related Premium: <u>Drop</u>	Income-Related Premium: <u>-8</u> \$100/120,000 phased down to 50% subsidy	Income-Related Premium: <u>Drop</u>	Income-Related Premium: <u>-19</u> \$100/120,000 phased down to 25% subsidy <i>Rough estimate</i>
Subtotal: - \$73.5	Subtotal: - \$89.0	Subtotal: - \$75.5	Subtotal: - \$90.0
Drug Benefit:	Drug Benefit:	Drug Benefit:	Drug Benefit:
\$5,000 limit in 2006 +118	\$4,000 limit in 2006 +112	\$4,000 limit in 2006 +112	\$5,000 limit in 2006 +118
Premiums: \$24/mo in 2002; \$41/mo in 2006	Premiums: \$24/mo in 2002; \$38/mo in 2006	Premiums: \$24/mo in 2002; \$38/mo in 2006	Premiums: \$24/mo in 2002; \$41/mo in 2006
Low-income assistance <i>Rough</i> +6	Low-income assistance <i>Rough</i> +6	Low-income assistance <i>Rough</i> +6	Low-income assistance <i>Rough</i> +6
Subtotal: + \$124	Subtotal: + \$118	Subtotal: + \$118	Subtotal: + \$124
Surplus: - \$50.5	Surplus: - \$29.0	Surplus: - \$42.5	Surplus: - \$34.0
<i>Savings to surplus ratio: 1.5 to 1</i>	<i>Savings to surplus ratio: 3.1 to 1</i>	<i>Savings to surplus ratio: 1.8 to 1</i>	<i>Savings to surplus ratio: 2.6 to 1</i>

*Includes interactions and premium offsets

REMINER: Latest MSR 10-year = \$372 billion/10 years.
 Savings alone effect = 2020 (including \$25 billion IRP), BUT THAT DOESN'T AFFECT TE/WANT TO PART B

The President's Plan to Modernize and Strengthen Medicare*
 (Source: OMB, FY Cash estimates, 1999 Trustees Report baseline, \$ in billions)

Policies	Total	
	2000-04	2000-09
Competitively Defined Benefits Proposal	-0.4	-8.9
Traditional Medicare Modernization	-5.4	-24.8
Provider Savings		
<u>SMI</u>		
Lab Update	-0.1	-1.1
ASC Update	0.0	-0.2
Ambulance Update	0.0	-0.4
DME, PEN, P&O Updates	-0.1	-0.9
Premium Offset	0.0	0.6
Subtotal, SMI	-0.2	-2.0
<u>HI</u>		
PPS Inpatient Capital	-0.4	-1.8
PPS Exempt Capital	-0.2	-0.7
PPS Inpatient Update	-2.9	-33.4
PPS Exempt Update	-0.4	-4.7
Hospice Update	-0.1	-1.2
<u>Interactions</u>	-0.1	-1.2
Subtotal, HI	-4.1	-43.0
Total Provider Savings	-4.3	-45.0
Quality Assurance Fund	4.2	7.5
Clinical Lab Cost Sharing	-2.7	-8.5
Index the Part B Deductible	-0.2	-1.8
Eliminate Cost-sharing for Preventive Benefits	0.9	3.0
<i>Premium Offset</i>	<i>0.2</i>	<i>2.8</i>
<i>Interactions</i>	<i>0.2</i>	<i>3.5</i>
Subtotal	-7.5	-72.9
Prescription Drug Benefit and low-income protections, federal costs	28.7	118.8

* Estimates have been revised slightly since initial plan release.

Memorandum: Table does not reflect the Administration's proposal to use a portion of the surplus to extend HI trust fund solvency.

KEY MEDICARE FACTS

CURRENT PROGRAM

- 39 beneficiaries, about 34 million elderly, 5 million people with disabilities. Projected to double by 2034. Baby boom begins to retire in 2012, last group retires in 2028.
- About 16 percent of beneficiaries are in managed care
- Part B premium in 1999 is \$45.50
- **Spending 2000:** Gross: \$247 billion (\$220 billion net of premiums)
 - Part A: \$147 billion
 - Part B: \$96 billion

	PRESIDENT'S PROPOSAL (\$ b, FY)			
	OMB		CBO	
	00-04	00-08	00-04	00-08
Competitive Defined Benefit	-0.4	-8.9	-0.4	-8.9
Traditional Medicare Modern.	-5.4	-24.8	-1.2	-3.5
Provider Savings	-4.3	-45.0	-4.5	-35.8
<i>Part A</i>	-4.1	-43.0	-	-
<i>Part B</i>	-0.2	-2.0	-	-
Quality Assurance Fund	4.2	7.5	4.2	7.5
Cost Sharing	-2.0	-8.1	-0.9	-5.3
<i>Lab Cost Sharing</i>	-2.7	-9.5	-	-
<i>Indexing Part B Deductible</i>	-0.2	-1.6	-	-
<i>Eliminating Preventive Copays</i>	0.9	3.0	-	-
Interactions	0.4	6.3	-0.8	-15.1
Total	-7.5	-72.9	-3.6	-61.1
Prescription Drugs	28.7	118.8	37.2	168.2

PART A SOLVENCY

- **1999 Trustees' report:** 2015
- **1998 Trustees' report:** 2008
- **1993 Trustees' report:** 1999

EFFECTS OF SURPLUS ON SOLVENCY	
(Assuming President's Reforms / Drug Benefit)	
	Insolvency
Current: \$328 b:	2030
\$300 b / 10 yrs:	2030
\$200 b / 10 yrs:	2027
\$100 b / 10 yrs:	2023
No surplus/ savings only:	2021

CONGRESSIONAL PROPOSALS

- **Surplus dedication:** Democratic Finance members allocated \$290 b / 10 yrs. No other bills
- **Managed Care Competition:** Only Finance Committee interest
- **Traditional Medicare Modernization:** All committees appear to support but no bills
- **BBA extenders:** No support independent of prescription drug proposal or give-backs
- **Cost sharing change:** B. Graham introduced most of prevention pieces
- **Prescription drugs:**
 - **Kennedy-Rockefeller-Dingell-Waxman:** \$200 deductible, 20% coinsurance up to \$1,200 in Federal spending; stop-loss after \$4,000 in out-of-pocket spending. 50% premium subsidy.
 - **Snowe-Wyden "SPICE" bill:** Relies on Medigap, managed care plans to offer drug option; provides subsidies phased down to 25 percent for all people who can find a plan.
 - **Bilirakis-Peterson bill:** Low-income only; modeled after CHIP with some stop-loss.

* Urgent

Medicare Income Related Premium
File

From: Robert J. Pellicci on 06/24/99 09:47:49 AM

Record Type: Record

To: Daniel N. Mendelson/OMB/EOP@EOP

cc: See the distribution list at the bottom of this message

Subject: IRP Information You Requested

On June 25, 1997, the Senate passed S. 947, which introduced means-based testing to determine premiums under Medicare Part B, by a vote of 73-27. Republicans voted 52-3 in favor; Democrats voted 24-21 against the bill. (Northern Democrats voted 22-15 against; Southern Democrats voted 6-2 for passage.)

I am faxing you the Member-by-Member vote. If you have any questions let me know.

Also, I'm working on getting you statements from House and Senate Members who supported the IRP.

Message Copied To:

Mark E. Miller/OMB/EOP@EOP
Yvette.Shenouda/OMB/EOP@EOP
Wm G. White/OMB/EOP@EOP
Caroline B. Davis/OMB/EOP@EOP
Janet R. Forsgren/OMB/EOP@EOP
James J. Jukes/OMB/EOP@EOP

CC: JENNINGS
LEW
MATHEWS

Re: all comments
on IRP.

OO FLOOR VOTES
SENATE ROLL CALL VOTE 130
June 25, 1997

Fiscal 1998 Budget Reconciliation - Spending Passage

June 25, 1997

Senate Roll Call Vote 130

S947

Passage of the bill to cut spending by \$135.9 billion between fiscal 1998 and fiscal 2002. The bill would cut the growth of Medicare by about \$115 billion, gradually increase the Medicare eligibility age from 65 to 67 between 2003 and 2027 and introduce means-based testing to determine premiums under Medicare Part B. It would cut Medicaid spending by \$13.6 billion, boost spending on children's health care by \$16 billion. As part of the children's health initiative, the use of federal funds for abortions would be prohibited except in cases of rape or incest, or when a woman's life is threatened.

Passed by a vote of 73-27:

Republicans 52-3

Democrats 21-24 (Northern Democrats 15-22, Southern Democrats 6-2)

Vote Key

YEAS (73)

REPUBLICANS (52)

Abraham (MI Jr)

Allard (CO-Jr)

Ashcroft (MO-Jr)

Bennett (UT-Jr)

Bond (MO-Sr)

Brownback (KS-Sr)

Burns (MT-Jr)

Campbell (CO-Sr)

Chafee (RI-Sr)

Coats (IN-Jr)

Cochran (MS-Sr)

Collins (ME-Jr)

Coverdell (GA-Sr)

Craig (ID-Sr)

D'Amato (NY-Jr)

Frist (TN-Jr)

Gorton (WA-Sr)

Gramm (TX-Sr)

Grassley (IA-Sr)

Gregg (NH-Jr)

Hagel (NE-Jr)

Hatch (UT-Sr)

Hutchinson (AR-Jr)

Hutchinson (TX-Jr)

Inhofe (OK-Jr)

Jaffords (VT-Jr)

Keruphorns (ID-Jr)

Kyl (AZ-Jr)

Lott (MS-Jr)

Lugar (IN-Sr)

Murkowski (AK-Jr)

Nickles (OK-Sr)

Roberts (KS-Jr)

Roth (DE-Sr)

Santorum (PA-Jr)

Sessions (AL-Jr)

Shelby (AL-Sr)

Smith, G. (OR-Jr)

Smith, R.C. (NH-Sr)

Snowe (ME-Sr)

Specter (PA-Sr)

Stevens (AK-Sr)

Thomas (WY-Sr)

Thompson (TN-Sr)

Thurmond (SC-Sr)

DeWine (OH-Jr)
 Dromonicoi (NM-Sr)
 Enzi (WY-Jr)
DEMOCRATS (21)

Baucus (MT-Sr)
 Biden (DE-Jr)
 Breaux (LA-Sr)
 Bryan (NV-Jr)
 Cleland (GA-Jr)
 Conrad (ND-Sr)
 Feingold (WI-Jr)

NAYS (27)

REPUBLICANS (3)

Fairolath (NC-Jr)

DEMOCRATS (24)

Akaka (HI-Jr)
 Bingaman (NM-Jr)
 Boxer (CA-Jr)
 Humpers (AR-Sr)
 Byrd (WV-Sr)
 Daschle (SD-Sr)
 Dodd (CT-Sr)
 Dorgan (ND-Jr)

NOT VOTING (0)

Mack (FL-Jr)
 McCain (AZ-Sr)
 McConnell (KY-Jr)

Feinstein (CA-Sr)
 Ford (KY-Sr)
 Glenn (OH-Sr)
 Graham (FL-Sr)
 Kerry (NE-Sr)
 Kohl (WI-Sr)
 Lautricu (LA-Jr)

Grams (MN-Jr)

Durbin (IL-Jr)
 Harkin (IA-Jr)
 Hollings (SC-Jr)
 Inouye (HI-Sr)
 Johnson (SD-Jr)
 Kennedy (MA-Sr)
 Kerry (MA-Jr)
 Lautenberg (NJ-Sr)

Warner (VA-Sr)

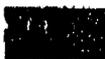
Leahy (VT-Sr)
 Lieberman (CT-Jr)
 Moseley-Braun (IL-Sr)
 Moynihan (NY-Sr)
 Robb (VA-Jr)
 Rockefeller (WV-Jr)
 Wyden (OR-Sr)

Helms (NC-Sr)

Levin (MI-Sr)
 Mikulski (MD-Jr)
 Murray (WA-Jr)
 Reed (RI-Jr)
 Reid (NV-Sr)
 Sarbanes (MD-Sr)
 Torricelli (NJ-Jr)
 Wellstone (MN-Sr)

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 Providing vote-by-vote tracking of legislative events on Capitol Hill.
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Revised

June 23, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING
CHRIS JENNINGS

SUBJECT: MEDICARE REFORM PLAN

Attached is a summary of the recommendation for your Medicare reform plan that has emerged from the NEC/DPC policy development process. While it is not a unanimous recommendation, all of your advisors agree that it represents a strong proposal that is marketable from both a policy and political perspective.

The Medicare reform package would:

- Make the program more competitive and efficient;
- Modernize the benefits package, including the provision of a meaningful prescription drug benefit (\$0 deductible and a 50% copay up to a \$4,000 limit); and
- Dedicate a portion of the surplus to strengthen the program – by both extending the life of the Medicare Trust Fund for at least another decade and allocating a small amount of the dedicated surplus (about 10 percent) to help pay for a prescription drug benefit.

The policies described on the attached page produce about \$82 billion in savings over 10 years, with drug costs of \$112 billion, leaving a remainder of \$30 billion in surplus needed for the benefit. This amount is less than we thought would be necessary to finance the difference between the savings and the costs of the drug benefit. This leaves enough surplus for solvency that, combined with the Part A savings, should extend the life of the trust fund through 2030. These estimates are still preliminary but should give you a sense of the orders of magnitude of the policy.

Attached is a one-page and a chart that describes the majority recommendation. Following that is a one-page outline of some of the key issues that were discussed in making the recommendation, particularly when there as a minority viewpoint.

DRAFT: MAJORITY RECOMMENDATION FOR MEDICARE REFORM PLAN

The majority of your advisors have agreed on the Medicare reform plan outlined below. It would make Medicare more competitive and efficient; modernize the program's benefits, including the provision of a long-overdue prescription drug benefit; and dedicate 15 percent of the surplus to strengthen Medicare. By constraining Medicare growth and dedicating a portion of the nation's surplus to help finance its demographic challenges, the proposal extends the life of the Trust Fund through at least 2030.

REFORM PROPOSALS

- **Smoothing Out Provider Savings in the Balanced Budget Act:** The plan would implement administrative actions and dedicate a 10-year, \$7.5 billion set-aside to moderate the BBA provider policies. This would not be allocated to specific providers; rather it would serve as a placeholder for policies developed in consultation with Congress and as evidence of problems is strengthened.
- **Managed Care Competition and Private Sector Purchasing Tools for Traditional Medicare:** The proposal would inject true price competition between managed care plans and the traditional fee-for-service program. Both options would offer a defined and updated benefit package -- including prescription drug coverage -- and compete over cost and quality. However, unlike the premium support proposal recommended by Senator Breaux, beneficiaries staying in the traditional fee-for-service program could do so without an increase in premiums.
- **Reducing Out-Year Growth in Provider Spending.** Beginning in 2003, the Medicare actuary and CBO project Medicare growth to return to high rates as most of the policies in the BBA expire. This plan would extend but moderate some of the BBA policies; it would not extend growth rate reductions in home health, disproportionate share hospital (DSH) and nursing home payments.
- **Rationalizing Cost Sharing:** This proposal would eliminate cost sharing for all preventive services, removing an important barrier to using these important services. It would also add 20 percent coinsurance to clinical laboratory services, one of the few Part B services without cost sharing. This would help cut down on unnecessary use and fraud.
- **Income-Related Premium:** The plan would reduce from 75 to 50 percent the Medicare premium subsidy to beneficiaries with income of \$100,000 or more (\$120,000 for a couple). This would affect approximately 1 million beneficiaries (less than 3 percent of all beneficiaries).

PRESCRIPTION DRUG BENEFIT

- **Base Package: No deductible, 50% copay up to \$4,000 limit:** Medicare would provide an optional drug benefit that would cover half of all drug costs up to \$4,000 when fully phased in. The policy would assure that beneficiaries choosing this option would benefit from the estimated 13 percent discount obtained through bulk purchasing of prescription drugs by private sector pharmacy managers. Its premium would be about \$24 per month in 2002, \$36 in 2006 when fully phased-in. Low-income beneficiaries would not pay premiums and cost sharing, as under current law.
- **Catastrophic Option:** Any and all funds produced from the Justice Department Medicare law suit would be explicitly allocated to providing coverage for expenses above the \$4,000 limit.

SURPLUS

- The plan would dedicate 15 percent of the unified surplus to Medicare. It would lock away at least the same amount that was dedicated for solvency in the President's budget. Less than 10 percent of this amount (about \$30 billion of the over \$350 billion over 10 years) would help offset the cost of the prescription drug benefit. \$30 billion is less than half of the drop in Medicare baseline spending between January and June alone, indicative of the major contribution that Medicare has made towards no deficit and increasing prosperity. The remaining surplus, in combination with the savings, will guarantee that the Medicare trust fund is solvency through at least 2030.

SUMMARY TABLE: DRAFT RECOMMENDATION

POLICIES	SAVINGS/SPENDING
Savings: Managed Care Competition Modernize Traditional Medicare Provider Savings - Set-aside for BBA moderations Eliminate Preventive Copays Add 20% Lab Copay Income-Related Premium: \$100/120,000 phased down to 50% subsidy Interactions/Premium offset Subtotal:	-8 -25 -49 +7.5 +3 -9 -8 +7 -\$82 billion
Drug Benefit:* No deductible, 50% cost sharing up to \$4,000 limit in 2006 Premiums: \$24/mo in 2002; \$36/mo in 2006	+\$112 billion
Surplus:	-\$30 billion

- **Rough estimates/ waiting for final scoring.**

DRAFT: KEY ISSUES

1. Income-related premium. The plan that we presented to you on June 1 included an income-related premium that begins at \$80,000 for singles, \$100,000 for couples, phases down the premium subsidy from 75 to 25 percent, and saves \$25 billion over 10 years. However, in subsequent consultations, we learned that the House Democratic leadership feels significant antagonism towards this policy. They argue that it invokes the 1988 catastrophic act, in which an extremely unpopular mandatory income-related premium was used to help fund the catastrophic drug benefit. Additionally, they contend that a tripling of the premium (from lowering the subsidy to 25 percent) could be unsustainable.

While most of your advisors still believe that this is sound policy, the majority recommendation is to retain the income-related premium but to mitigate it in two ways: (1) raising the income threshold to \$100,000 for singles, \$120,000 and (2) preserving a 50 percent rather than a 25 percent subsidy. Gene feels that this is a reasonable compromise, but would still recommend that we phase down to a 25 percent subsidy, particularly if we are raising the income limits to \$100,000 to \$120,000. While it would raise the monthly premium from \$45 to \$137, it would be paid by the wealthiest 5 percent of beneficiaries who would still have a 25 percent premium subsidy. This makes the policy consistent with the income-related premiums that we have supported in the past, and makes the plan as a whole more credible.

2. Beneficiaries' contribution to Medicare reform. There was a significant discussion of what the appropriate level of beneficiary cost sharing should be in this plan. It now includes two proposals: the clinical lab copay and the income-related premium. Earlier plan options included a change to the nursing home copayment (converting the \$100 per day copay after 20 days to a straight 20 percent coinsurance for all covered days) and indexing the Part B deductible to inflation (raising it \$3 per year and saving about \$1.5 billion over 10 years). Your advisors unanimously agreed to drop the nursing home change because of its distribution impact (helps some by having others pay more). In addition, the overwhelming majority of your advisors oppose including the Part B deductible indexing policy, including Secretaries Shalala and Rubin, John Podesta, and Larry Stein. They are concerned that it has too many political problems for too little savings. It would affect everyone and thus could engender widespread opposition (we attacked Republicans in 1995 for raising the Part B deductible, although their proposal was to raise it to \$150, index it to program growth, and use it for a tax cut). Gene and Chris would support including indexing the deductible to inflation because they believe that it is good policy and shows a seriousness about reform that may be lost by taking out too many of our tough choices. The \$100 deductible has only been updated three times in its history and has declined as a percent of program costs (from 45 percent in 1967 to about 3 percent in 1999).

3. Prescription drug premiums. A third issue relates to the design of the prescription drug benefit. We all agree that there should be no deductible, a 50 percent copay and a 50 percent premium subsidy. The question is where to set the spending limit: \$4,000 or \$5,000. The advantage of \$4,000 is that its costs and premiums are lower and it uses less surplus. The advantage of the \$5,000 limit is that it helps more beneficiaries (about 900,000 beneficiaries have more than \$4,000 in drug costs). Your advisors are recommending the \$4,000 limit, primarily because it drops the premium from \$41 per month to \$38 in 2006 when fully implemented (both options' premiums are \$24 per month in 2002 when the benefit begins).

4. Catastrophic drug coverage. The final issue relates to a new option that was raised recently. Although all of your advisors support paying for beneficiaries' drug costs above the coverage limits in the policy, we agree that we cannot afford to do so with the plan savings and limited amount of surplus. As such, we are recommending that you include the option to dedicate all revenue from the Medicare tobacco lawsuit towards the addition of catastrophic drug coverage. This is supported by all your advisors, although Bruce Reed cautions that it may be perceived as a gimmick. While understanding our budgetary constraints, Steve Ricchetti still believes that providing for catastrophic coverage is the much preferred policy.

Your advisors are hoping that you can announce this policy on Tuesday, which would mean that we need to have your sign off as soon as possible. Please let us know if you need more information or would like to meet to discuss this upon your return.

OUTSTANDING ISSUES IN MEDICARE

June 18, 1999

	<u>Cost/Savings</u>
CONSENSUS	
• Competition in Managed Care	-\$7 billion
• Traditional Modernization	-\$20 billion
• Provider Savings	-\$47 billion
• Clinical lab copayment	-\$10 billion
• Eliminate preventive cost sharing	+\$3 billion
• Interactions	+\$7 billion
TOTAL:	-\$74 billion

OUTSTANDING ISSUES

• Income-Related Premium	-\$25 billion
• Nursing Home Copay	-\$5 billion
• Part B Deductible Indexing	-\$2 billion
• Provider Set-Aside	+\$7.5 billion
• Prescription Drug Benefit	+\$110-148 b
• Surplus	

PRESCRIPTION DRUG BENEFIT OPTIONS (\$ billion, no maintenance of effort)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	00-09
\$5,000 LIMIT in 2006										
Option 1		<u>\$2,000</u>	<u>\$2,000</u>	<u>\$3,000</u>	<u>\$4,000</u>	<u>\$5,000</u>	<u>indexed to inflation</u>			
<u>50% Subsidy</u>	0	4.6	10.9	12.5	14.9	17.3	19.2	20.8	22.6	123.0
<u>Premiums</u>		\$24	\$25	\$31	\$36	\$41	\$43	\$45	\$48	
Option 2										
<u>55% Subsidy</u>	0	5.4	12.0	13.8	16.4	19.0	21.1	22.9	24.7	135.3
<u>Premiums</u>		\$22	\$22	\$28	\$33	\$37	\$39	\$41	\$43	
Option 3										
<u>60% Subsidy</u>	0	6.1	13.0	15.0	17.9	20.7	23.0	24.9	26.9	147.6
<u>Premiums</u>		\$19	\$20	\$25	\$29	\$32	\$34	\$36	\$38	
\$4,000 LIMIT in 2005										
Option 4		<u>\$2,000</u>	<u>\$2,000</u>	<u>\$3,000</u>	<u>\$4,000</u>	<u>indexed to inflation</u>				
<u>50% Subsidy</u>	0	4.6	10.9	12.5	14.9	16.8	18.2	19.6	21.2	118.8
<u>Premiums</u>		\$24	\$25	\$31	\$36	\$38	\$40	\$42	\$45	
Option 5										
<u>55% Subsidy</u>	0	5.4	12.0	13.8	16.4	18.4	20.0	21.5	23.2	130.7
<u>Premiums</u>		\$22	\$22	\$28	\$33	\$34	\$36	\$38	\$40	
Option 6										
<u>60% Subsidy</u>	0	6.1	13.0	15.0	17.9	20.1	21.7	23.4	25.3	142.5
<u>Premiums</u>		\$19	\$20	\$25	\$29	\$31	\$32	\$34	\$36	
\$4,000 in 2006										
Option 7 **		<u>\$2,000</u>	<u>\$2,000</u>	<u>\$3,000</u>	<u>\$3,000</u>	<u>\$4,000</u>	<u>indexed to inflation</u>			
<u>50% Subsidy</u>	0	4.6	10.9	12.5	13.3	15.4	16.6	18.0	19.4	110.7
<u>Premiums</u>		\$24	\$25	\$31	\$32	\$36	\$37	\$39	\$41	
Option 8 **										
<u>55% Subsidy</u>	0	5.4	12.0	13.8	14.6	16.9	18.3	19.8	21.3	122.0
<u>Premiums</u>		\$22	\$22	\$28	\$29	\$33	\$33	\$35	\$37	
Option 9 **										
<u>60% Subsidy</u>	0	6.1	13.0	15.0	15.9	18.5	20.0	21.6	23.3	133.3
<u>Premiums</u>		\$19	\$20	\$25	\$26	\$29	\$30	\$31	\$33	
Part B Premium	\$52	\$57	\$62	\$66	\$70	\$75	\$80	\$85	\$90	

* NOT DONE BY ACTUARIES

MEDICARE PLAN SCORING
(Dollars in billion, FY)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000-04	2000-09
PACKAGE 1. (No Nursing Home Copay, No Part B Deductible Indexing, No Income-Related Premium)												
Managed Care Reform	0.0	0.0	0.0	0.0	0.0	-0.4	-1.0	-1.4	-1.8	-1.9	0.0	-6.5
Traditional Medicare Modernization	0.0	-0.4	-0.9	-1.3	-2.0	-2.7	-2.8	-3.1	-3.3	-3.6	-4.5	-20.1
Provider Savings	0.0	0.0	0.1	-1.1	-2.7	-4.4	-6.2	-8.2	-10.8	-13.4	-3.7	-46.7
Provider Set-Aside **	0.4	1.7	1.1	0.7	0.5	0.6	0.6	0.7	0.7	0.8	4.4	7.7
Cost Sharing	0.0	0.0	-0.7	-1.2	-1.4	-1.5	-1.7	-1.9	-2.2	-2.5	-3.3	-13.1
Drop Nursing Home Copay	0.0	0.0	0.3	0.4	0.5	0.5	0.6	0.7	0.7	0.8	1.2	4.5
Drop Part B Deductible Indexing	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.2	1.4
Income-Related Premium	-	-	-	-	-	-	-	-	-	-	0.0	0.0
Interactions	0.0	0.0	-0.1	-0.1	0.0	0.0	0.1	0.0	0.3	0.1	-0.2	0.3
Premium Offset ***	0.0	-0.1	0.1	0.2	0.4	0.7	1.0	1.3	1.4	1.8	0.7	6.8
TOTAL	0.4	1.2	-0.1	-2.3	-4.5	-7.2	-9.2	-11.7	-14.7	-17.5	-5.3	-65.7
PACKAGE 2. (No Nursing Home Copay)												
Managed Care Reform	0.0	0.0	0.0	0.0	0.0	-0.4	-1.0	-1.4	-1.8	-1.9	0.0	-6.5
Traditional Medicare Modernization	0.0	-0.4	-0.9	-1.3	-2.0	-2.7	-2.8	-3.1	-3.3	-3.6	-4.5	-20.1
Provider Savings	0.0	0.0	0.1	-1.1	-2.7	-4.4	-6.2	-8.2	-10.8	-13.4	-3.7	-46.7
Provider Set-Aside **	0.4	1.7	1.1	0.7	0.5	0.6	0.6	0.7	0.7	0.8	4.4	7.7
Cost Sharing	0.0	0.0	-0.7	-1.2	-1.4	-1.5	-1.7	-1.9	-2.2	-2.5	-3.3	-13.1
Drop Nursing Home Copay	0.0	0.0	0.3	0.4	0.5	0.5	0.6	0.7	0.7	0.8	1.2	4.5
Income-Related Premium	0.0	-0.7	-3.0	-2.5	-2.7	-2.8	-3.0	-3.3	-3.5	-3.8	-8.9	-25.3
Interactions	0.0	0.0	-0.1	-0.1	0.0	0.0	0.1	0.0	0.3	0.1	-0.2	0.3
Premium Offset ***	0.0	-0.1	0.1	0.2	0.4	0.7	1.0	1.3	1.4	1.8	0.7	6.8
TOTAL	0.4	0.5	-3.1	-4.9	-7.3	-10.1	-12.4	-15.2	-18.5	-21.7	-14.4	-92.4
PACKAGE 3. (No Provider Set-Aside)												
Managed Care Reform	0.0	0.0	0.0	0.0	0.0	-0.4	-1.0	-1.4	-1.8	-1.9	0.0	-6.5
Traditional Medicare Modernization	0.0	-0.4	-0.9	-1.3	-2.0	-2.7	-2.8	-3.1	-3.3	-3.6	-4.5	-20.1
Provider Savings	0.0	0.0	0.1	-1.1	-2.7	-4.4	-6.2	-8.2	-10.8	-13.4	-3.7	-46.7
Provider Set-Aside	-	-	-	-	-	-	-	-	-	-	0.0	0.0
Cost Sharing	0.0	0.0	-0.7	-1.2	-1.4	-1.5	-1.7	-1.9	-2.2	-2.5	-3.3	-13.1
Income-Related Premium	0.0	-0.7	-3.0	-2.5	-2.7	-2.8	-3.0	-3.3	-3.5	-3.8	-8.9	-25.3
Interactions	0.0	0.0	-0.1	-0.1	0.0	0.0	0.1	0.0	0.3	0.1	-0.2	0.3
Premium Offset ***	0.0	-0.1	0.1	0.2	0.4	0.7	1.0	1.3	1.4	1.8	0.7	6.8
TOTAL	0.0	-1.2	-4.4	-6.0	-8.3	-11.1	-13.7	-16.6	-19.9	-23.3	-20.0	-104.6

** Placeholder: includes: (1) IME at 6.5% for 00-01; (2) OPD transition costs; (3) add-on to SNF RUGs; (4) therapy caps at \$2,000.

*** Increased by 10%/ not completely estimated by actuaries.

NOTE: Not completely estimated by actuaries/subject to change.

AGENDA: MEDICARE PRINCIPALS' MEETING

JUNE 9, 1999

- I. DRAFT OPTION**
- II. OUTSTANDING POLICY ISSUES**
- III. CHALLENGES IN ROLL-OUT**

I. DRAFT OPTION

I. MAKING MEDICARE MORE EFFICIENT AND COMPETITIVE

Managed Care Competition:

-\$7

Begins in 2004; fully adjusts for geographic variation, with hold harmless

Modernizing Traditional Medicare

-\$14

Competitive pricing for negotiated pricing and selective contracting

Medicare PPO

Primary care case management

Stronger prior authorization and utilization review

Selected "Centers of Excellence" Global payments for services, sites or conditions

Incentive payments for qualified integrated delivery arrangements

Contracting reform

Providers: Smoothing Out BBA Extenders*

-\$44

DROPPED: Nursing home, home health, DSH extenders. Straight BBA extenders = \$62 billion.

Hospital PPS update for urban hospitals of market basket minus 1.0 for 2003-09

Hospital PPS update for rural hospitals of market basket minus 0.5 for 2003-09

Hospital PPS capital reduction of 1 percent for 2003-09

Hospital PPS exempt update of relationship between operating cost and target amount for 2003-09

Hospital PPS exempt capital reduction of 15 percent for 2003-09

Hospital outpatient department update of market basket minus 1 for 2003-09

Hospice update of market basket minus 1 for 2003-09

Lab update of CPI - 1 for 2003-09

Ambulatory surgical center, durable medical equipment, prosthetics & orthotics, parental nutrients update of CPI -1

Improving Medicare Management

0

Increasing management flexibility to improve ability to hire private sector staff. Increasing accountability:

Management Advisory Committee, Medicare Coverage Advisory Committee & Citizens' Advisory Panel on

Medicare Education; Restructuring central and regional office system

II. MODERNIZING MEDICARE'S BENEFITS

Prescription Drug Benefit (placeholder: 50% up to \$5,000; 55% premium subsidy) +\$137

Improving Preventive Benefits +\$3

Eliminating all preventive services cost sharing

Conduct major information campaign to encourage beneficiaries to use services

Expanding the mission of the U.S. Preventive Services Task Force to provide periodic recommendations on services for Medicare beneficiaries

Conducting a demonstration of the cost effectiveness of smoking cessation drugs and counseling

Rationalizing Cost Sharing and Medigap Reform -\$15

Adding 20 percent laboratory coinsurance (-\$9 billion)

Indexing the Part B deductible (-\$1.5 billion)

Changing the skilled nursing facility copayment (-\$4.5 billion)

Add a new Medigap plan option that allows for nominal (rather than no) cost sharing

Allow access to Medigap for beneficiaries whose managed care plan withdraws from Medicare

Direct the Secretary of Health and Human Services and the National Association of Insurance Commissioners to update benefits in all Medigap plans

Improving Care Coordination for Dual Eligibles

Information to all new Medicare-Medicaid beneficiaries on coverage

Demonstration of financing / management options for coordinating care

Medicare Buy-In for Certain People Ages 55-56 (paid for in President's Budget)

People ages 62-64

Displaced workers ages 55-62

"Broken promise" people

III. FINANCING THAT SUPPLEMENTS PROVIDER AND BENEFICIARY SAVINGS

Dedicated Surplus for Strengthening Medicare (amount not counted toward savings)

Income-Related Premium -\$25
Begins at \$80,000 single, \$100,000 couple

Medicare Tobacco Lawsuit?

Interactions: +\$2

TOTAL SAVINGS: **-\$100**

DRUG BENEFIT: 50% up to \$5,000 limit, 55% premium subsidy **+\$137**

PRESCRIPTION DRUG BENEFIT OPTIONS (\$ BILLIONS -- Preliminary -- Excludes Maintenance of Effort)										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	00-09
\$5,000 LIMIT	<u>Cap:</u>	<u>\$2,000</u>	<u>\$2,000</u>	<u>\$3,000</u>	<u>\$4,000</u>	<u>\$5,000</u>	<u>indexed</u>			
50% Premium	0	5.4	10.5	12.3	14.8	17.2	19.0	20.6	22.3	122.2
Medicaid		0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	3.4
Total		5.9	11.0	12.8	15.3	17.6	19.4	21.0	22.7	125.6
<i>Premiums</i>		<i>\$24</i>	<i>\$25</i>	<i>\$31</i>	<i>\$36</i>	<i>\$41</i>	<i>\$43</i>	<i>\$45</i>	<i>\$48</i>	
55% Premium	0	5.9	11.6	13.6	16.3	18.9	20.9	22.6	24.5	134.4
Medicaid		0.4	0.4	0.4	0.3	0.2	0.2	0.2	0.2	2.2
Total		6.3	12.0	13.9	16.6	19.2	21.1	22.8	24.7	136.7
<i>Premiums</i>		<i>\$22</i>	<i>\$22</i>	<i>\$28</i>	<i>\$33</i>	<i>\$37</i>	<i>\$39</i>	<i>\$41</i>	<i>\$43</i>	
60% Premium	0	5.8	12.7	14.8	17.8	20.7	23.0	24.9	26.9	146.6
Medicaid		0.3	0.3	0.2	0.2	0.1	0.0	0.0	0.0	1.0
Total		6.1	13.0	15.0	17.9	20.7	23.0	24.9	26.9	147.6
<i>Premiums</i>		<i>\$19</i>	<i>\$20</i>	<i>\$25</i>	<i>\$29</i>	<i>\$32</i>	<i>\$34</i>	<i>\$36</i>	<i>\$38</i>	
67% Premium	0	7.2	14.1	16.5	19.8	23.0	25.4	27.5	29.7	163.0
Medicaid		0.2	0.2	0.1	0.0	-0.2	-0.2	-0.3	-0.3	-0.6
Total		7.4	14.2	16.6	19.8	22.8	25.2	27.2	29.4	162.5
<i>Premiums</i>		<i>\$16</i>	<i>\$17</i>	<i>\$21</i>	<i>\$24</i>	<i>\$27</i>	<i>\$29</i>	<i>\$30</i>	<i>\$32</i>	
NO LIMIT:	<u>Cap:</u>	<u>\$2,000</u>	<u>\$3,000</u>	<u>\$3,000</u>	<u>\$4,000</u>	<u>\$5,000</u>	<u>None</u>			
50% Premium	0	5.4	11.8	13.1	15.0	17.3	21.2	24.4	27.0	135.1
<i>Premiums</i>		<i>\$24</i>	<i>\$30</i>	<i>\$31</i>	<i>\$36</i>	<i>\$41</i>	<i>\$51</i>	<i>\$54</i>	<i>\$58</i>	
67% Premium	0	7.2	15.7	17.5	20.0	23.0	28.3	32.6	36.0	180.3
<i>Premiums</i>		<i>\$16</i>	<i>\$20</i>	<i>\$21</i>	<i>\$24</i>	<i>\$27</i>	<i>\$34</i>	<i>\$36</i>	<i>\$39</i>	

II. OUTSTANDING ISSUES

- **Balanced Budget BBA fixes:** What to include, if anything
 - Pay for transition to national rates for hospital outpatient departments +0.8
 - Keep indirect medical education adjustment at 6.5% through 2002 +1.6
 - Nursing homes: address high-cost cases +0.9
 - Relieve pressure on therapy caps +1.9

- **Cost sharing:** Final sign-off

- **Size of Drug Benefit:**
 - Amount of subsidy; catastrophic coverage or not

- **Surplus:**
 - Timing, amount, ratios, stream

- **Process for POTUS sign-off:** Meeting or memo

CHALLENGES IN ROLL-OUT

- **Overall Package:**
 - Impact on Trust Fund
 - Impact on Beneficiaries – Ratio of beneficiary premiums and cost sharing to drug premium subsidy. Ratio of provider to beneficiary savings
 - Out-year balance of cost and savings
- **Surplus for Drugs:**
 - Rationale
 - Ratio of financing through savings / surplus
- **Drug Benefit:**
 - Examples of how it works, who it helps
 - Defense against criticism of substitution; not enough (no catastrophic coverage)
- **Competition:**

- How to explain
- How to differentiate from Breaux-Thomas plan
- How to fend off industry claims of unfair competition, benefit reductions
- **Provider savings:**
 - How justified in light of BBA / why no BBA fixes (if so decided)
 - All backloaded
- **Cost Sharing:**
 - Who is helped / who is hurt
 - Is this reform without adding catastrophic coverage
- **Medicare management**
 - Does plan give HCFA too much flexibility
 - Why not adopt the Breaux-Thomas Medicare board

THE PRESIDENT HAS SEEN
5/24/99

THE WHITE HOUSE
WASHINGTON

May 24, 1999

copied
Sperling
Reed
Jennings
Lambrew
Podesta

INFORMATIONAL MEMORANDUM TO THE PRESIDENT

FROM: Gene Sperling, Bruce Reed, Chris Jennings, and Jeanne Lambrew

SUBJECT: Medicare Policy Development Update

NEC and DPC continue to develop Medicare reform policy options for your consideration. We will soon be meeting with you to discuss these options and to receive your guidance. In the meantime, we thought that you might be interested in reviewing some of the attached background information that has been prepared for internal and, in some cases, external briefings for Members of Congress and their staffs. It addresses most, but not all, of the topics under review. As we continue to address policy issues and options, we will forward you additional information.

Policy Development Status. Following the conclusion the Medicare Commission and the recently-released Medicare Trustees' report, we have been working intensively to evaluate the strengths and weaknesses of the Breaux-Thomas reform proposal and the advantages and disadvantages of various alternatives to it. Your White House, OMB, HHS, and Treasury Medicare advisors are reviewing numerous reimbursement and structural reform concepts, drug benefit designs, and offset options to strengthen the financial status of the program and to help pay for benefit improvements. Cost estimates are being run and re-run to reflect the Trust Fund's new baseline (which is now scoring reduced savings for individual policies), new design options of interest to your advisors, and evolving reform positions of key Members of Congress, aging advocates, and health care providers. In preparation for our upcoming policy discussions, you will find:

- Tab 1 contains our Medicare "walk-through" document that is being used for Members of Congress and their staff to detail the strengths and weaknesses of both the Medicare program and the recommendations made by Senator Breaux and Congressman Thomas.
- Tab 2 includes the memo that we gave you in advance of the Senate Democratic retreat that highlights the major issues.
- Tab 3 provides an update of Congressional interest in and action on Medicare, which was produced in collaboration with Larry Stein.

- Tab 4 encloses a background briefing document on premium support and options to inject more competition in the Medicare program. We are closely examining alternatives that meet our objectives of making Medicare more efficient and reducing costs while not undermining the traditional fee-for-service program. (Also attached is the original premium support concept article by Robert Reischauer and Henry Aaron.)
- Tab 5 provides a summary of our talking points on the use of the surplus for Medicare – in particular the common myths and our responses to them.
- Tab 6 includes detailed background information on the status of prescription drug coverage for older and disabled Americans as well as a discussion of the major moving pieces of any drug benefit design.
- Tab 7 includes some background facts on options involving beneficiary contributions to Medicare. These include the income-related Part B premium as well as fact sheets on various services for which cost sharing changes are being considered.
- Tab 8 provides specific back-up facts and trends that strongly support your contention that an increase in the eligibility age without an explicit policy that assures there is not an increase in the uninsured ill advised and flawed policy.
- Tab 9 explains the issues confronting rural beneficiaries under the Breaux-Thomas proposal -- a critically important issue in the Senate and amongst the conservative Democrats most willing to be open to broader Medicare reforms.
- Tab 10 includes your response to the March 30th, 1999 Trustees report on the status of Medicare, and our general talking points supplementing your comments. It also contains your comments responding to the Breaux-Thomas proposal and the general talking points on the topic, your State of the Union comments on Medicare, your AARP speech outlining your principles for reform, and the back-up paper that was released around the speech.

We hope that you will find this information to be useful in preparation for our upcoming meeting with you on Medicare reform options.

PART B INDEXING

1991	raised	to	\$100
1982	raised	to	\$ 75
1973	raised	to	\$60
1966	raised	to	\$50

EDWARD M. KENNEDY
MASSACHUSETTS

United States Senate

WASHINGTON, DC 20510-2101

May 14, 1998

The Honorable John D. Podesta
Chief of Staff to the President
The White House
Washington, D.C. 20500

Dear John:

It was good to talk with you yesterday. This letter is to follow up on our conversation. I'll be dropping the President a note on this next week, as well.

As you develop a Medicare prescription drug proposal, I wanted to share my thinking on some key concepts:

(1) I hope you will be able to stay as close to the bill that Jay Rockefeller and I introduced as possible. All the elderly groups are supporting it. It would be unfortunate if the Administration's proposals look very different. We need to speak with one voice on this issue, and we need the elderly to be solidly behind us.

(2) The elderly need a sound benefit package if we are to keep their support. That means we need basic coverage that will offer something to those with only moderate drug costs, as well as a catastrophic benefit to guarantee that those who need expensive drugs will be protected. If we don't have both components, our plan will be difficult to defend. When Jay and I developed our bill, we found that most of the cost is in the basic benefit. The catastrophic benefit raised the overall cost by only about 20%, but it means critical protection for those who need help the most.

(3) I know that you have concerns about how to finance the cost. I see a number of possible sources of funds:

- The biggest potential source is the surplus that is already allocated to Medicare under the President's budget. I do not see any conflict in using a portion of these funds for financing a prescription drug benefit. Medicare cuts were the biggest single source of spending reductions creating the surplus. The solvency of Medicare has improved dramatically since the President made his proposal. The President said that the surplus was to be used to improve and strengthen Medicare. There is nothing more important to improve and strengthen Medicare than coverage of prescription drugs. If one-half of the portion of the surplus designated for Medicare is used to pay part of the drug benefit, it would raise \$172 billion over the next 10 years--and still make it possible to extend the solvency of the Trust

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Fund to 2020, the President's original target.

- We should preserve the option of using tobacco taxes to finance part of the benefit. We could propose an additional tobacco tax, or reallocate the tax already included in the Administration's budget. A tax of 55 cents a pack would raise about \$70 billion over ten years.
- In making choices on the benefit package, the elderly are willing to pay more in premiums for greater security. Retaining the 25% share in Part B today is important, but I wouldn't be too concerned the difference between a \$15 and \$25 additional monthly premium, or something of that magnitude. In Massachusetts, 50% of the senior citizens in the Harvard Community Health Plan voluntarily chose to pay more than \$70 a month for drug coverage. Of course, we would need additional protection for the low income elderly.
- Any program savings from the President's reform package should be dedicated to prescription drug coverage.
- The elderly organizations were all very comfortable with the relatively high \$200 dollar deductible included in our bill. It largely financed the cost of the catastrophic benefit.

(4) Strategically, the most important step is to launch a benefit that the elderly will rally around. If we get this program enacted, in the end it will be part of some overall agreement with the Republicans, and not necessarily tied to any specific financing source.

In our March 4 meeting with the President, he emphasized that he wanted a plan that Jay and I and Jim McDermott and John Dingell agree on. We're all grateful for that, and we look forward to working closely with you.

I hope these thoughts are helpful. The President's leadership on this critical health issue has been inspiring, and there are reasonable prospects for success this year.

With thanks and appreciation,

As ever,

Edward M. Kennedy

