FINAL

Medicare H.I. Trust Fund Briefing Document

June 5, 1996

The Two Parts of Medicare:

Hospital and Physician Services

The Medicare Program has two distinct parts:

- **1. Hospital insurance [HI] or Part A**
  - Part A pays for inpatient hospital care, skilled nursing facilities, home health services, and hospice care.

- **2. Supplemental Medical Insurance [SMI] or Part B**
  - Part B covers physician services, along with outpatient hospital services, laboratory services and durable medical equipment.

The Annual Trustees Reports

- The Medicare Trustees submit annual reports to Congress each spring in which they review the performance of the HI and SMI Trust Funds in the prior fiscal year. The report also includes the Trustees projections about future trust fund performance and solvency.

- The projections in the Report are completed by professional actuaries in both HCFA and SSA. They are intended to convey professional judgment of how future scenarios could affect the HI and SMI Trust Funds.

The HI program -- Part A

- **The HI program** is funded through the HI Trust Fund. The trust fund receives about 86 percent of its income from the HI payroll tax (2.9% of payroll, split between employers and employees).

  - Other sources of HI Trust Fund income include:

    -- Interest, which accounts for about 9 percent of income.

    -- Revenue from the taxation of Social Security benefits, which accounts for about 3 percent of income.

    -- Other miscellaneous revenue, which is less than 2 percent of income.

Financial Status of the HI Trust Fund

- "Actuarial Balance" is the term used to describe the long-range (75-year) financial status of the HI Trust Fund.

- The trust fund is considered to be in actuarial balance when income is projected to be approximately equal to costs (both expressed as a percentage of taxable payroll) over the long term.

- For 1996, the 75-year actuarial balance is projected to be -4.52%.

  - This means that we would need to increase income or decrease costs by 4.52 percent (expressed as a percentage of taxable payroll) over the 75-year period to keep the trust fund in balance.

HI Trust Fund Experience -- 1995

- Expenditures exceeded revenues by $36 million.

- The trust fund almost broke even one year earlier than projected by the 1995 HI Trustees Report, because:

  Expenditures were higher than expected in 1995.
  - Hospital cases were more complicated.
  - Claims from all providers were filed faster.

  Revenues were lower than expected in 1995.
  - Overestimated income from Social Security taxes.
  - Wages grew slower than expected.

Change in the Financial Status, 1995 to 1996

- From 1995 to 1996, the projected 75 year actuarial balance decreased from -3.52% to -4.52%.

- The decrease in the long-term actuarial balance was caused by:
  - Assuming higher utilization in SNFs and HHAs in the future (35%)
  - Adjusting for actual 1995 performance (higher expenditures, lower revenues) (26%)
  - Assuming more complicated hospital admissions in the future (19%)
  - Adding a poor performance year (2070) to the valuation period (10%)
  - Updated economic and demographic assumptions (10%)

Findings of the 1996 HI Trustees Report

- The HI program remains severely out of financial balance, and is expected to be depleted in 2001, under intermediate assumptions.

- HI expenditures exceeded income for the first time in calendar year 1995.

Trust Fund Income, 1995	$115.0 billion
Trust Fund Expenditures, 1995	$117.6 billion
Trust Fund Assets, 12/31/95	$130.3 billion

- Spending on HI benefits was $116.4 billion, a 13 percent increase. Average spending per HI enrollee increased 11 percent to $3,170.

- Administrative costs were 1 percent of program expenditures.

- The distribution of HI benefit spending to providers was as follows:

Hospitals	70 percent
Skilled Nursing and Home Health	21 percent
Managed Care	7 percent
Hospice	2 percent

Trustee Recommendations -- HI

- The Trustees recommend prompt, decisive, effective action to reduce growth in HI program costs and extend the date of exhaustion.
- The Trustees recommend establishment of a national advisory group on Medicare Reform to provide critical information needed in the discussion and orderly development of legislative solutions to the HI program's long-range financial problems.
- If timely and effective action is taken, the Trustees believe solutions will be found that can restore and maintain the financial integrity of the HI program.

The SMI program -- Part B

- Part B is funded through the SMI Fund. The Fund receives income from two primary sources: general revenues and premiums paid by enrollees.
    - Part B premiums are directly deducted out of the monthly checks of Social Security beneficiaries. In 1996, premiums are $42.50 per month.
    - While SMI or Part B growth affects the federal budget deficit, the SMI Trust Fund could never become insolvent (unlike the HI trust fund).

The Financial Status of the Part B Trust Fund

- In the 1996 report, the Medicare Trustees report that the financing established for the SMI program for calendar year 1996 is estimated to be sufficient to cover program expenditures and preserve an adequate contingency reserve.

- The financial adequacy of the SMI Trust Fund is expressed as the extent to which its assets exceed its liabilities for that year.

- Under intermediate assumptions, assets would exceed liabilities by about 25 percent of the following year's outlays by December 1996.

Trustees Recommendations -- SMI

- Given the past and projected costs of the program, the Trustees urge the Congress to take additional action to control SMI costs in the near term.

- For the longer term, Congress should develop legislative proposals to address the large increases associated with the baby boom's retirement through the same process used to address HI costs.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care
Financing Administration

Memorandum

Date June 4, 1996

From Chief Actuary, HCFA

Subject Estimated Year of Exhaustion for HI Trust Fund under Senate Budget Resolution

To Administrator, HCFA

This memorandum responds to your request for the estimated year of exhaustion for the Hospital Insurance trust fund under the Medicare savings targets specified in the Senate Budget Resolution. It is our understanding that the resolution would require Medicare expenditure reductions of the following amounts (in billions, by fiscal year):

	1997	1998	1999	2000	2001	2002	Total
HI	$5	$10	$16	$23	$30	$39	$123
SMI	$2	$2	$6	$9	$12	$14	$45
Total	$7	$12	$22	$32	$42	$53	$168

Based on the intermediate set of assumptions in the 1996 Trustees Report, we estimate that the assets of the HI trust fund would be depleted in the first half of calendar year 2004 if the specified savings targets were implemented. Under present law, trust fund depletion would occur early in calendar year 2001 (based on the same assumptions). Thus, the savings proposed under the Senate Budget Resolution would postpone the year of exhaustion by roughly 3 to 3½ years.

This estimate of the year of depletion under the Senate Budget Resolution is subject to several important limitations. First, it is our understanding that the specified savings amounts represent targets, as opposed to the estimated financial effects of a specific package of legislative provisions. Our estimates of the effects of such a package, once it is developed, could differ from the savings amounts shown above.

Second, we believe the savings targets are consistent with the assumptions and estimates developed by the Congressional Budget Office. We have made a rough adjustment to these amounts to place them on a basis consistent with the intermediate assumptions from the 1996 Trustees Report. Actual savings amounts, estimated directly on the basis of the intermediate assumptions, could differ somewhat.

Third, the savings targets were available only through fiscal year 2002. We extrapolated this series by assuming that the savings in later years would represent the same percentage reduction from present-law expenditures as in 2002. In practice, subsequent savings could be either larger or smaller than the extrapolated amounts.

Finally, the financial operations of the HI trust fund will depend heavily on future economic and demographic trends. The estimated year of depletion under the Senate Budget Resolution is very sensitive to the underlying assumptions and could vary significantly if actual future economic and demographic trends differ from these assumptions.

For these reasons, the estimated year of depletion presented in this memorandum represents only a crude estimate of the effects of Senate Budget Resolution's Medicare savings on the HI trust fund. As additional information becomes available on the specific provisions underlying these budget targets, we will be able to prepare more refined estimates. Please let us know if we can provide additional information in the meantime.

Richard S. Foster

Richard S. Foster, F.S.A.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care
Financing Administration

Memorandum

Date June 4, 1996

From Chief Actuary, HCFA

Subject Estimated Year of Exhaustion for HI Trust Fund under Administration's Balanced Budget Proposal

To Administrator, HCFA

This memorandum responds to your request for the estimated year of exhaustion for the Hospital Insurance trust fund under the Medicare provisions in the Administration's balanced budget proposal. Based on the intermediate set of assumptions in the 1996 Trustees Report, we estimate that the assets of the HI trust fund would be depleted in mid-calendar year 2006 under the Administration's proposal.

In the absence of corrective legislation, trust fund depletion would occur early in calendar year 2001 under the intermediate assumptions. Thus, the Administration's proposal would postpone the year of exhaustion by roughly 5½ years.

The financial operations of the HI trust fund will depend heavily on future economic and demographic trends. For this reason, the estimated year of depletion under the Administration's balanced budget proposal is very sensitive to the underlying assumptions. In particular, under adverse conditions such as those assumed by the Trustees in their "high cost" assumptions, asset depletion could occur significantly earlier than the intermediate estimate. Conversely, favorable trends would delay the year of exhaustion. The intermediate assumptions represent a reasonable basis for planning.

The estimated year of exhaustion is only one of a number of measures and tests used to evaluate the financial status of the HI trust fund. If you would like additional information on the estimated impact of the Administration's Medicare proposals, we would be happy to provide it.

Richard S. Foster

Richard S. Foster, F.S.A.

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

June E. O'Neill
Director

May 9, 1996

Honorable J. James Exon
Ranking Minority Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Senator:

At your request, the Congressional Budget Office (CBO) has examined the effects of the Administration's budgetary proposals on the Hospital Insurance (HI) trust fund. Under current law, the HI trust find is projected to become insolvent in 2001. CBO estimates that the Administration's proposals would postpone this date to 2005.

Sincerely,

June E. O'Neill

June E. O'Neill

cc: Honorable Pete V. Domenici
Chairman

Medicare Trust Fund File

NEWS

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
April 29, 1996

CONTACT: Ari Fleischer or Scott B
(202) 225-8.

New CBO Report Shows Medicare Declining Far Faster than the Clinton Administration Projected

Thomas Calls on President to Submit New Plan to Save Medicare

CBO Projects $444 Billion Medicare Deficit in 2006, with Deterioration Accelerating

Washington -- Congressman Bill Thomas, Chairman of the Health Subcommittee of the Committee on Ways and Means, today released a new report by the Congressional Budget Office showing that the Medicare trust fund balance is declining far faster than the 1995 report issued by the Clinton Administration's Medicare Board of Trustees.

"This new report," Thomas said, "confirms the worst fears about the Medicare Trust Fund. Medicare is in worse shape than we were told last year and its balance is declining every day. Medicare must be saved from bankruptcy and I urge the Clinton Administration to heed this urgent new warning by submitting an updated plan to the Congress on how to save Medicare, without increasing taxes. The President should submit his plan along with the 1996 Medicare Trustee report."

The CBO. figures released today by Thomas are the first official confirmation that the Medicare Hospital Insurance Trust Fund, also known as Medicare part A, will be bankrupt in 2001, one year earlier than the Trustee's 1995 report projected. The deficit will then drop exponentially over the next five years to $444 billion, according to the CBO, far in excess of the projections made in 1995 by the Clinton Administration Board of Trustees.

"Based on this new information, President Clinton's existing Medicare proposal is out of date and it appears to be a band-aid on a severely hemorrhaging patient. The President should submit to the Congress an updated plan on how to save Medicare. We must work together to save Medicare and Republicans are committed to preserving and strengthening Medicare so it will always be there for those who need it. In 1993, President Clinton raised taxes to boost Medicare and it obviously didn't work. His new plan should contain no tax increases."

Thomas added that today's CBO numbers are more stark than the 1995 Medicare Trustee's Report.

"If the 1995 Medicare Trustees report was a 6.0 earthquake, this new report is an 8.0 earthquake," Thomas said. The 1995 Trustee report said Medicare would suffer a $6.7 billion deficit in 2002. CBO shows that the Medicare deficit will actually be $86 billion, surging to a $444 billion deficit in 2006, blowing the overall federal deficit totally out of control. "This dramatic difference clearly shows that Medicare is in worse shape than we were told," Thomas said.

The CBO report, part of the April 1996 baseline, also indicates that the accelerating Medicare crisis is not caused by demographic changes. According to the their analysis, approximately 37 million senior citizens will be enrolled in Medicare in 1997, increasing to 41 million seniors by 2006, a increase of just 1.2% annually.

"Before the baby boomers even retire, Medicare is severely out of balance and both parties must work together and rethink how to save this important program," Thomas said.

"This would not have happened if President Clinton hadn't vetoed the Republican plan to save Medicare." Thomas said. "Instead of working together to save Medicare, the President unfortunately chose to play partisan politics by scaring senior citizens and demagoging the issue. The time has come to save Medicare. I urge the President to submit a new plan to the Congress that can achieve strong bi-partisan support."

Monthly Treasury Statement

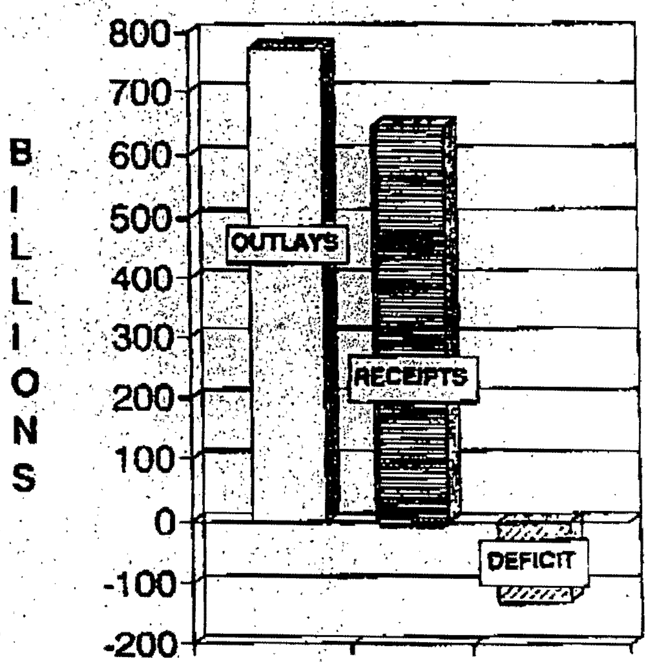
of Receipts and Outlays
of the United States Government

For Fiscal Year 1996 Through March 31, 1996, and Other Periods

Highlight

The cumulative outlays for the Earned Income Credit are $13.8 billion, $5.9 billion more than Fiscal Year 1995. This is due primarily to elimination of delays experienced in 1995 that were associated with Internal Revenue Service fraud prevention measures.

RECEIPTS, OUTLAYS, AND SURPLUS/DEFICIT
THROUGH MARCH 1996



Contents

Compiled and Published by

Department of the Treasury
Financial Management Service

Table 8. Trust Fund Impact on Budget Results and Investment Holdings as of March 31, 1996

[$ millions]

Classification	This Month			Fiscal Year to Date			Securities held as Investments Current Fiscal Year		
							Beginning of		Close of This Month
	Receipts	Outlays	Excess	Receipts	Outlays	Excess	This Year	This Month	
Trust receipts, outlays, and investments held:									
Airport and airway	28	622	−493	1,878	3,225	−1,347	11,145	10,439	9,950
Black lung disability	44	43	1	295	271	24	......	......	......
Federal disability insurance	4,974	3,786	1,188	27,672	21,802	5,870	35,225	39,886	41,087
Federal employees life and health	......	97	−97	......	−317	317	23,729	24,157	24,063
Federal employees retirement	1,249	3,390	−2,141	22,079	19,778	2,301	374,219	321,974	375,865
Federal hospital insurance	9,180	10,410	−1,230	56,294	60,542	−4,247	129,864	127,583	126,072
Federal old-age and survivors insurance	27,887	25,337	2,550	166,487	149,646	16,841	447,947	462,196	464,737
Federal supplementary medical insurance	13,359	5,367	7,992	43,164	33,480	9,684	13,513	14,345	22,718
Highways	1,546	1,698	−152	11,567	10,955	612	18,531	19,646	19,317
Military advances	1,007	1,228	−221	7,149	7,130	19	......	......	......
Railroad retirement	419	644	−225	2,727	4,007	−1,280	14,440	15,156	15,413
Military retirement	846	2,385	−1,539	21,939	14,241	7,698	112,983	121,135	119,577
Unemployment	366	2,613	−2,246	10,262	13,865	−3,603	47,141	46,212	44,123
Veterans life insurance	23	140	−117	650	590	60	13,606	13,772	13,675
All other trust	360	531	−171	2,426	2,419	7	14,060	14,851	14,735
Total trust fund receipts and outlays and investments held from Table 6-D	61,292	58,190	3,101	374,591	341,636	32,955	1,256,385	1,291,893	1,291,332
Less: Interfund transactions	14,914	14,914	......	111,535	111,535	......			
Trust fund receipts and outlays on the basis of Tables 4 & 5	46,378	43,276	3,101	263,056	230,101	32,955			
Total Federal fund receipts and outlays	45,467	95,843	−50,377	400,284	581,458	−181,174			
Less: Interfund transactions	49	49	......	211	211	......			
Federal fund receipts and outlays on the basis of Table 4 & 5	45,418	95,794	−50,377	400,073	581,248	−181,174			
Less: Offsetting proprietary receipts	2,784	2,784	......	17,975	17,975	......			
Net budget receipts & outlays	89,011	136,286	−47,275	645,154	773,372	−128,218			

... No transactions.

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds such as Federal payments and contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipts side of such transactions is offset against budget outlays. In this table, interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds respectively.

Note: Details may not add to totals due to rounding.

Table 15–3. INCOME, OUTGO, AND BALANCES OF MAJOR TRUST FUNDS—Continued

(In billions of dollars)

	1995 actual	Estimate						
		1996	1997	1998	1999	2000	2001	2002
Highway Trust Fund								
Balance, start of year	17.9	19.0	21.4	23.9	27.6	33.1	41.1	50.8
Income:								
Governmental receipts	22.6	24.6	24.9	25.2	25.7	26.1	26.6	27.1
Proprietary receipts	*	*	*	*	*	*	*	*
Receipts from Federal funds:								
Interest	1.2	1.3	1.4	1.5	1.7	2.0	2.4	2.8
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Receipts from Trust funds	....	....	....	....	....	....	....	....
Subtotal, Income	23.9	26.0	26.4	26.9	27.5	28.2	29.0	30.0
Outgo:								
To the public	22.7	23.6	23.9	23.2	22.0	20.2	19.3	20.4
Payments to Other funds	....	....	....	....	....	....	....	....
Subtotal, Outgo	22.7	23.6	23.9	23.2	22.0	20.2	19.3	20.4
Change in fund balance:								
Surplus or deficit:								
Excluding interest	–*	1.1	1.1	2.1	3.8	6.0	7.4	6.8
Interest	1.2	1.3	1.4	1.5	1.7	2.0	2.4	2.8
Subtotal, surplus or deficit	1.1	2.4	2.5	3.6	5.5	8.0	9.7	9.6
Adjustments:								
Transfers/lapses (net)	....	....	....	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....	....
Total, Change in fund balance	1.1	2.4	2.5	3.6	5.5	8.0	9.7	9.6
Balance, End of Year	19.0	21.4	23.9	27.6	33.1	41.1	50.8	60.4
Medicare: Federal Hospital Insurance (HI) Trust Fund								
Balance, start of year	129.6	129.5	123.4	126.5	128.8	130.1	133.2	131.9
Income:								
Governmental receipts	96.0	101.8	108.8	114.3	120.5	126.9	133.1	139.9
Proprietary receipts	1.0	1.1	1.1	1.2	1.2	1.3	1.4	1.5
Receipts from Federal funds:								
Interest	10.9	10.5	9.9	9.7	9.5	11.1	8.8	8.3
Other	7.0	7.0	7.4	7.5	7.9	8.4	8.8	9.3
Receipts from Trust funds	....	....	....	....	....	....	....	....
Subtotal, income	114.8	120.5	127.2	132.7	139.1	147.7	152.1	159.1
Outgo:								
To the public	114.9	126.5	124.2	130.3	137.9	144.5	153.5	162.9
Payments to Other funds	....	....	....	....	....	....	....	....
Subtotal, outgo	114.9	126.5	124.2	130.3	137.9	144.5	153.5	162.9
Change in fund balance:								
Surplus or deficit (–):								
Excluding interest	–10.9	–16.6	–6.9	–7.4	–8.2	–8.0	–10.2	–12.1
Interest	10.9	10.5	9.9	9.7	9.5	11.1	8.8	8.3
Subtotal, surplus or deficit (–)	–*	–6.1	3.0	2.3	1.2	3.2	–1.4	–3.8
Adjustments:								
Transfers/lapses (net)	–*	....	....	....	....	....	....	....
Other adjustments	–*	*	....	....	....	....	....	....
Total, change in fund balance	–*	–6.1	3.0	2.3	1.2	3.2	–1.4	–3.8
Balance, end of year	129.5	123.4	126.5	128.8	130.1	133.2	131.9	128.0

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

April 18, 1996

The Honorable Bill Archer
Chairman
Committee on Ways and Means
House of Representatives
Washington, DC. 20515-6348

Dear Mr. Chairman:

Thank you for inquiring about the status of the Medicare Hospital Insurance trust fund. As you know, the Administration has always been and remains committed to the fiscal integrity of the Medicare program and to the health security of our nation's elderly.

As you will recall, I and the other trustees have repeatedly called attention to the need for action to preserve these funds. Over a year ago, we warned that, without it, the HI trust fund would be depleted within seven years.

The Administration followed up with a set of concrete proposals to preserve Medicare. The President's FY 1997 budget proposal preserves Medicare, expands choice and preventive benefits, and cracks down on fraud and abuse, while balancing the budget. It would strengthen the trust fund and extend it well into the next decade. That would provide the President and the Congress the time to make longer-term reforms to the Medicare program and its finances.

The Congressional majority, too, has made proposals. We continue to believe, most strongly, that the Congress and the Administration can and should act. We should resume discussions and reach an agreement on balancing the budget and strengthening the Medicare Trust Fund.

In your letter, you asked that we make every effort to complete the 1996 Trustees' report, and we are. As Secretary Shalala described in her letter to you in February, and as she and I testified before your committee, that report has been delayed as a result of the partial government shutdown and attendant work stoppages that resulted from this year's harsh winter. These combined both to slow down the work of the Social Security Administration staff, and to delay production of some of the economic data on which their projections are based.

Only last month, Congress enacted a change in the Social Security earnings test. This increased the workload of the Social Security Administration and required a recalculation of the OASDI and HI trust fund cash flows, causing a further delay. As you noted in your letter, the Social Security actuary now reports that he hopes to be able to provide a draft for the Trustees' approval by early June. We anticipate the report to be completed no later than June 10th.

As you might expect, we have been monitoring this situation closely. My staff has been in contact weekly with the offices of the chief actuaries at the Social Security Administration and at the Health Care Financing Administration to ensure that every effort is being made to issue the Report as soon as possible. In the meantime, we continue to publish the receipts and outlays of the HI trust fund every month.

I should reemphasize the point that I made when I testified before your committee several months ago -- that any one year's results will not change the need for us to act. Both the Administration and the Congress have proposals. As the President has indicated, there are sufficient savings right now to balance the budget and extend the life of the Medicare HI trust fund. We should not delay our joint efforts to balance the budget and shore up this program that helps provide health security to our nation's elderly. We remain ready and eager to work together.

Sincerely,

Robert E. Rubin

Medicare Trust Fund

THE WHITE HOUSE

WASHINGTON

February 28, 1996

The Honorable Bill Thomas
Chairman, Subcommittee on Health
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515-6348

Dear Mr. Chairman:

I appreciate the opportunity to respond to your letter suggesting that the Administration failed to fully and properly disclose information about the performance of the Medicare Trust Fund in fiscal year 1995. I hope the information in this letter will make clear that the information was widely circulated and analyzed by Congressional and outside experts in late 1995. As Chairman Domenici's February 12, 1996 *Budget Bulletin* stated, the information "first became available last October, in the Monthly Treasury Statement (MTS) summarizing outlays for FY 1995. This new data was incorporated by CBO into their revised December baseline."

The following is a detailed summary of the actions the Administration took to release information on the performance of the Trust Fund in fiscal year 1995 and the extent to which people outside the Administration, including the Congressional Budget Office, were aware of the Trust Fund's performance in fiscal year 1995. I believe it will make clear that the information was fully and properly disclosed: the information was sent to every Member of Congress (with multiple copies to your own Committee), was analyzed in 1995 by CBO and actuarial groups, and was even incorporated into the CBO revised December baseline.

- The Administration reported the Medicare Trust Fund's income, outlays, and invested assets at the end of the fiscal year 1995 in the "Final Monthly Treasury Statement of Receipts and Outlays of the United States Government" on October 27, 1995.

- Nearly 4,000 copies of the Treasury Department's report were distributed to the public, including individual copies for every Member of Congress, with 50 extra copies to your House Ways and Means Committee, as well as the Senate Finance Committee, the House and Senate Budget, Appropriations, and Banking Committees, and the CBO.

- The summary of the Report (p.4) clearly stated that "outlays from the Hospital Insurance Trust Fund (Part A) exceeded the MSR estimate by $2.9 billion." Clearly, this fact would not have been highlighted in the summary if there were any intent to conceal the information.

- The table of contents on the front page of the official Treasury Report gives the page number for a few items, including the table on "federal trust funds/securities." The table -- which lists the year-end status of all the major trust funds -- is widely analyzed and shows that the $129 billion Medicare Trust Fund ran a $36 million deficit in fiscal year 1995.

- While your letter suggests that the information was not highlighted for policy makers, the CBO analyzed the Treasury report and widely circulated its November 7, 1995, "Analysis of the September Treasury Statement," including mailing a copy to Administration officials.

- CBO then used this information and incorporated it into its December baseline.

- The American Academy of Actuaries, chaired by Guy King, also analyzed the Treasury Department report and mentioned the fiscal year 1995 performance of the Trust Fund in its "Comments and Recommendations on Medicare Reform," dated December 21, 1995.

- As Chairman Domenici's February 12, 1996 *Budget Bulletin* stated, the Trust Fund information reported in the New York *Times*, "first became available last October, in the Monthly Treasury Statement (MTS) summarizing outlays for FY 1995. This new data was incorporated by CBO into their revised December baseline. It was partially offset by Medicare part B expenditures which came in lower than projected." The Majority Staff of the Senate Budget Committee concluded in the *Budget Bulletin* that "the recent changes in projections do not significantly affect the long-run Medicare situation."

Congressional and Administration staff experts may not have raised this information to the level your letter seems to suggest they should have because the Trust Fund's fiscal year 1995 performance is but one factor upon which the HCFA actuaries base their projections of the Trust Fund's long-term performance and its projected depletion date. In making their projections, the HCFA actuaries analyze a range of factors, including the Trust Fund's performance in the current fiscal year, and current data on health care costs, interest rate expectations, and HI payroll tax income. As you know, the actuaries are currently in the process of analyzing these and other factors for the Trustees' 1996 report. While it is possible that when everything has been analyzed, the Medicare Trust Fund performance in fiscal year 1995 may contribute to slightly moving back the depletion date, it is still not clear. Indeed, the change from projections for fiscal year 1995 was within the range of normal variation.

I would also note that the Trust Fund did not go "broke" in fiscal year 1995, as your letter states. Far from being "broke," the Trust Fund had a balance of more than $129 billion at the end of fiscal year 1995. The $36 million deficit in fiscal year 1995 reduced the Fund's net assets from $129.555 billion at the beginning of the fiscal year to $129.520 at the end of the fiscal year.

I hope this information helps clear up any misunderstandings about the release of this information. We all agree on the importance of strengthening the Medicare Trust Fund. As you know, the President's 1993 Economic Plan included three controversial provisions that the President fought for and that helped add three years to the life of the Trust Fund. The Administration and Congressional leaders now have enough savings in common to balance the budget and further strengthen the Medicare Trust Fund by several years, and we have repeatedly made the point that we should continue efforts to find common ground on both balancing the budget and strengthening the Medicare Trust Fund.

Sincerely,

Gene B. Sperling

Gene B. Sperling
Deputy Assistant to the President
for Economic Policy

cc: The Honorable Pete Stark

TRUST FUND FILE

7

MIKE MCCURRY STATEMENT

QUESTION:

Mike McCurry downplayed the importance of Rick Foster's statements to the New York Times, saying that perhaps they "overstated" the preliminary HCFA data, that it amounted to only a "fractional" difference. Yet a December memo from Rick Foster to Bruce Vladeck says that "this [FY 1995] experience is significantly less favorable than estimated in the 1995 Trustees Report ..." Which is it?

ANSWER:

- The 1995 Trustees Report projected that HI Trust Fund income would exceed expenditures by $4.7 billion in FY1995; however, it turned out that expenditures actually exceeded income by $36 million. In FY 95, fund expenditures were $114.883 billion.

- The source of the difference between the projected and actual fund balance was a 1.2 percent overestimation of total HI Trust Fund income and a 3.1 percent underestimation of total HI Trust Fund expenditures. Consequently, while the effect on the HI Trust Fund balance was significant, the actual projection errors were small and quite within reason.

- I believe Mr. McCurry was also making the point that the performance of the Trust Fund in fiscal year 1995 is one of the many factors upon which the HCFA actuaries base their projection of the Fund's performance over the longer term, and its projected depletion date. Other factors include new economic projections, new projections of HI income and expenditures, and trends in health care costs and utilization.

- While this is a significant finding, it did not drastically change the overall outlook for the life of the HI Trust Fund. In our May report, based on final economic projection and new estimates of health care costs and utilization, we will be able to report the actual total change in the HI Fund's depletion date for 1995.

PRESIDENT'S PLAN DOES NOT ACHIEVE LONG-TERM SOLVENCY

QUESTION:

In the minutes from the April 3, 1995 Board of Trustees meeting HCPA Administrator Bruce Vladeck is quoted as saying that to bring the HI program into actuarial balance for the first 25-year projection, either outlays will have to decline by 30 percent or income increase by 44 percent (or some combination thereof). It does not appear to me that the President is even close to moving in this direction with his current Medicare proposal. When is he going to get serious about the solvency of the Trust Fund?

ANSWER:

- The President is very serious about improving the Medicare program and upholding our commitment to current beneficiaries and future generations. We have spent the better part of the past year focusing on developing Medicare proposals to do this.
- As part of his comprehensive plan to balance the Federal budget, the President has proposed Medicare savings provisions totaling $124 billion over the next seven years. The President's Medicare plan would extend the life of the HI Trust Fund for at least the next decade. This will give the Administration and the Congress time to address the long-term problems that will arise from the retirement of the baby boomers, which will begin in 2010.

BACKGROUND:

- The figures cited in the question -- 30 percent decrease in outlays or 44 percent increase in revenue -- appear on page 27 of the Trustees report.

6

IMPACT ON BUDGET NEGOTIATIONS

QUESTION:

Don't you think if the budget negotiators had this information available to them when the Department knew it that it might have affected the course of the negotiations?

ANSWER:

- First, the budget negotiators did have this information available to them: in November, both sides agreed to use revised CBO estimates during the discussions. CBO revised its baseline at this time, and reflected, among other changes and updates, the latest figures from the Treasury on the status of the Trust Fund.

- Second, the difference between the projections and the actual experience of the Trust Fund last year was not sufficient, I believe, to affect the course of budget negotiations.

- Finally, when we consider some of the key points of contention in the Medicare debate, it is hard to imagine how <u>any</u> Trust fund data could have informed our discussions:

  - We oppose the Republican increase in the Part B premium which increases costs for seniors without contributing to solvency of the Part A Trust Fund.

  - We oppose elimination of limits on balance billing -- advocated by Republicans -- which shift costs to seniors without affecting the solvency of the Trust Fund.

  - We oppose Republican MSAs -- which CBO has estimated will raise Medicare costs by more than $4 billion. They will actually hasten the depletion of the Trust Fund.

  - We oppose Republican provisions that weaken efforts to combat fraud and abuse.

TRUST FUND FILE

MEMORANDUM February 17, 1996

FROM: Richard S. Foster
Office of the Actuary

SUBJECT: Comparison of Actual versus Estimated Income and Expenditure Amounts for the Hospital Insurance Trust Fund

Considerable attention has recently been given to the financial operations of the Hospital Insurance (HI) trust fund in fiscal year 1995. In particular, the fund was estimated in the 1995 Trustees Report to increase by $4.7 billion but actually experienced a slight deficit of $36 million instead. Chart 1, attached, shows the Trustees Report projections of HI income and expenditures for fiscal years 1995-2004 based on the intermediate set of assumptions. As indicated, income exceeded expenditures (by varying degrees) for many years but the gap recently narrowed, due to expenditures increasing at a faster rate than income. The Trustees Report estimated that income and expenditures would be approximately equal in fiscal year 1996, with steadily increasing deficits thereafter.

Instead, the crossover of income and expenditures occurred in fiscal year 1995, as illustrated in chart 1 by the point showing actual income and expenditures in 1995. (Only one point is shown since the two amounts are virtually identical.) Total HI income was 1.2 percent less than estimated and expenditures were 3.1 percent greater than estimated.

Chart 2 compares estimates of HI income and expenditures from the 1985 through 1995 Trustees Reports with subsequent actual amounts. The comparison is based on the "one-year-ahead" estimates, that is, the estimates for the first fiscal year of the projection period from each report. Estimated HI income for fiscal year 1985, for example, as shown in the 1985 Trustees Report, was $50,991 million. The actual amount of $50,933 million proved to be 0.1 percent lower than the estimate. The other first-year estimates of HI income were all within the range of about ±1.5 percent. Overall, actual income was greater than estimated in 7 of the 10 years.[1]

Actual HI expenditures exceeded the Trustees Report estimates in 6 of the 10 years, by amounts ranging from 0.4 percent to 5.6 percent. The estimates for 1987, 1990, 1992, and (to a somewhat lesser degree) 1995 significantly understated the subsequent actual level of expenditures.

There has been a general tendency for the income and expenditure estimates to err in the same direction, for example, both understating actual amounts. To some degree, this result might be expected since HI payroll tax income and benefit expenditures are both heavily affected by wage increases from year to year. In both 1994 and 1995, however, the estimation errors occurred in opposite directions. In 1994 the effect was favorable, with actual income exceeding the estimate

[1] The estimates in the 1989 Trustees Report are excluded from the comparison, since the actual values for fiscal year 1989 were known by the time the report was issued.

and actual expenditures below the estimate. Conversely, in 1995 the estimates were each in the adverse direction—actual income fell short of the estimate and expenditures were greater than estimated.

Compared to the range of accuracy from past Trustees Reports, the results for fiscal year 1995 are not unusual. Although greater accuracy in these estimates is desirable, and the Office of the Actuary continually strives to improve its data sources and estimation methodology, substantial reductions in estimation errors may not be feasible. Health care costs are subject to many influencing factors and consequently tend to exhibit more volatile rates of increase than expenditures for many other private and social insurance programs. As the Trustees Report notes, projections are intended to illustrate how the HI program would operate under specified, reasonable assumptions concerning trends in employment, wage increases, health care prices and utilization, and other factors. Actual future trust fund operations will almost always be somewhat different than any specific projection.

Richard S. Foster, F.S.A.
Chief Actuary

Attachments (2)

Chart 1—Actual vs. estimated FY 1995 Hospital Insurance income and expenditures

(In billions)

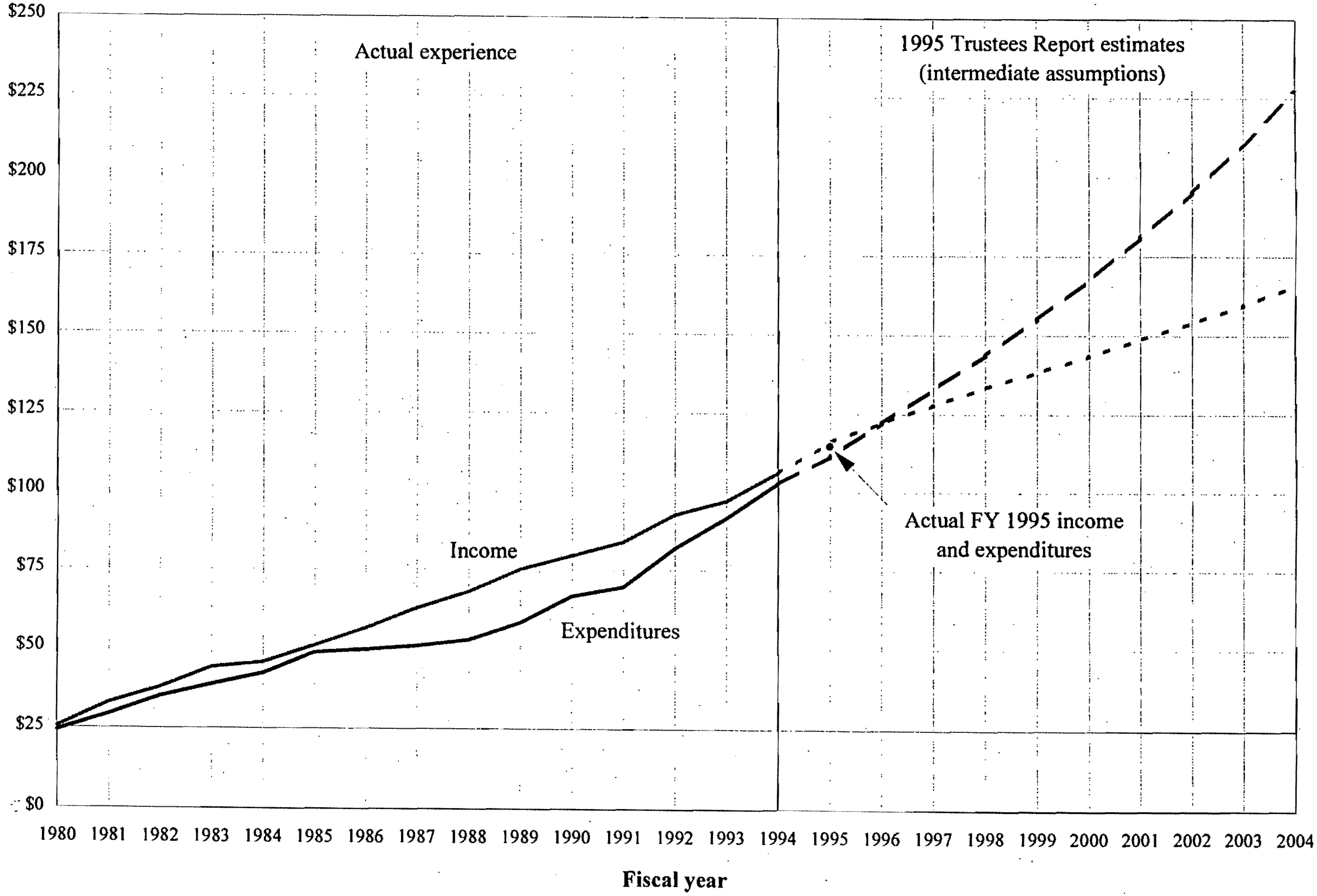


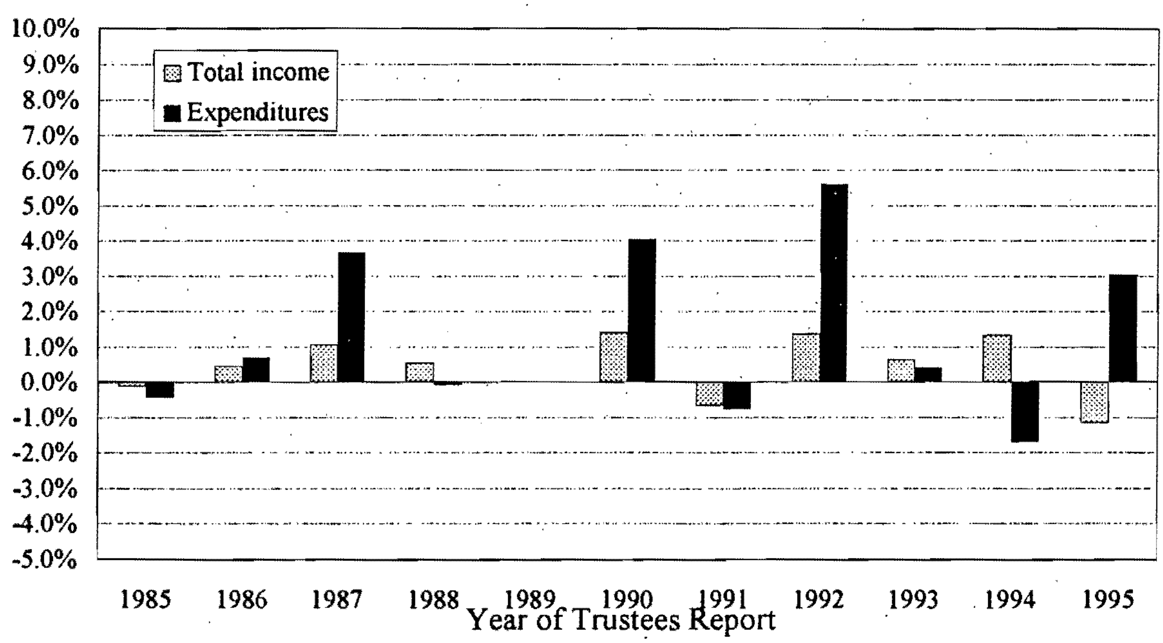
Chart 2—Comparison of estimation accuracy for HI income and expenditures

(Amounts in millions. Based on intermediate Trustees Report estimates for fiscal year of report)

FY	Total income		Total expenditures		Estimation error	
	Estimated	Actual	Estimated	Actual	Income	Expenditures
1985	$50,991	$50,933	$48,868	$48,654	-0.1%	-0.4%
1986	56,190	56,442	49,347	49,685	0.4	0.7
1987	62,086	62,751	49,000	50,803	1.1	3.7
1988	67,642	68,010	52,776	52,730	0.5	-0.1
1989	75,116	75,116	58,238	58,238	0.0	0.0
1990	78,451	79,563	64,099	66,687	1.4	4.0
1991	84,494	83,938	70,178	69,638	-0.7	-0.8
1992	91,425	92,677	77,619	81,974	1.4	5.6
1993	96,488	97,101	91,240	91,604	0.6	0.4
1994	104,798	106,195	104,559	102,770	1.3	-1.7
1995	116,184	114,847	111,481	114,883	-1.2	3.1

Notes:
1. The 1989 Trustees Report was completed after the end of the fiscal year. Therefore, there was no difference between the estimated and actual amounts.
2. Through 1990, estimated amounts are based on alternative II-B. Amounts for 1991 and later are based on alternative II.
3. HI payroll tax income and revenue from the taxation of OASDI benefits are estimated by the Office of the Actuary, Social Security Administration. All other HI income and expenditure components are estimated by the Office of the Actuary, Health Care Financing Administration.

Percentage estimation errors



Office of the Actuary
Health Care Financing Admin.
February 17, 1996

Date: February 15, 1996
To: Chris Jennings, Nancy Ann Min, Mark Miller
From: Debbie Chang
Re: Clearance of Fact Sheet on Medicare Trust Fund Status

In response to a request from the Congressional Budget Office, we have prepared a "Fact Sheet" on the Medicare HI Trust Fund that outlines information similar to that which was included in last week's letter to Congress but with a bit more technical detail. We are requesting clearance on this document by COB Friday so that we may forward to CBO. Please contact Colleen Tynan (690-5510) in my office with any comments.

Medicare Trust Fund File

o **What were the primary reasons that payroll revenues were overestimated?**

+ The Social Security Administration was inexperienced at estimating payroll revenues under a new law (passed in OBRA 1993) that removed the cap on the amount of income that is subject to the hospital insurance (HI) tax. Revenues from this tax are the primary source of income for the HI Trust Fund.
+ The average taxable payroll amount was lower than expected.
+ These factors led to a 1.6 percent overestimation of payroll tax receipts.

o **What were the primary reasons that benefit payments were underestimated?**

+ Volume: Hospital admissions increased by approximately 3.5 percent. The Trustees had estimated 3 percent growth in hospital admissions.
+ Intensity: The "case-mix" index (CMI), which measures the severity of hospital cases, was projected to grow at 0.85 percent. The CMI actually grew by 1.5 percent, meaning that on average hospitals treated sicker patients than last year. This increase is driven by less severe cases being treated in outpatient settings. While the shift of less severe cases to outpatient settings alone would result in lower HI Trust Fund expenditures (since outpatient claims are not paid from the HI Trust Fund), the combination of a higher average case-mix and more admissions translates into greater than expected Part A expenditures.
+ Decreased lag time in filing claims: Hospitals shortened the amount of time between delivering services and billing the intermediary. Consequently, more claims were paid during FY 1995 than we expected.
+ These three factors accounted for $3 billion (90 percent) of the difference between projected and actual outlays.

o **What is the latest estimate of the date of bankruptcy for the HI Trust Fund?**

+ Projections of HI Trust Fund solvency are made annually by the HCFA actuaries and included in the annual Trustees Report. This report is typically delivered in April, but it will be delayed by about 6 weeks this year because of the government furloughs and snow storms.
+ Performance of the Trust Fund in FY 1995 is just one of many pieces of information that the actuaries use to project the Trust Fund's performance over the longer term and its depletion date. They also analyze the factors that affect HI benefit growth, updated projections of HI payroll tax income and revenue from the taxation of OASDI benefits and current interest rate expectations. They are currently engaged in this activity.
+ Without the detailed analysis that these projections involve, it is too soon to draw firm conclusions about the extent to which the performance of the Trust Fund in fiscal year 1995, or the many other factors that affect the Fund, will affect the Trust Fund's estimated depletion date.
+ Using old intermediate assumptions from the 1995 Trustees report, updated only by reflecting actual Fund operations in FY 1995, the projected depletion date would move up from 2002 to 2001. However, this estimate does not take into account changes to other assumptions that have occurred during the last year.

o **Sources of Information:**

+ Table I.C1 of the 1995 Trustees Report shows that the Trust Fund Balance was supposed to increase by $4.7 billion in FY 1995 under the Trustees' intermediate assumptions, and end at $134.2 billion. The Trust Fund was estimated to have a slight surplus in FY 1996 ($45 million) and to experience a significant deficit ($5 billion) in FY 1997.
+ Table 8 of the Final Monthly Treasury Statement of Receipts and Outlays of the U.S. Government for FY 1995 through September 30, 1995 shows that the balance of the HI Trust Fund actually decreased by $36 million in FY 1995, ending at $129.9 billion.

FACT SHEET ON THE STATUS OF THE MEDICARE HOSPITAL INSURANCE TRUST FUND

o How has actual experience with the Trust Fund compared with the 1995 Trustee projections?

+ Each year, the Trustees evaluate the financial adequacy of the Hospital Insurance (HI) Trust Fund under three alternative sets of assumptions: low cost, intermediate, and high cost. The intermediate set of assumptions represents the Trustees' best estimate of the expected future economic and demographic trends that will affect the financial status of the Medicare program.
+ Based on the intermediate set of assumptions, the 1995 Trustees Report estimated: (i) that HI Trust Fund income would exceed expenditures by $4.7 billion in FY 1995, (ii) that income would approximately equal expenditures in FY 1996, and (iii) that income would fall short of expenditures by approximately $5 billion in FY 1997.
+ "The Final Monthly Treasury Statement of Receipts and Outlays of the United States Government" includes the actual fund balance of the HI Trust Fund at the end of each month. According to the Statement released on October 27, 1995, the balance of the Trust Fund actually decreased by $36 million during FY 1995.

o Why was the discrepancy in the status of the HI Trust Fund not reported to the public?

+ In fact, these results were released in public documents last fall. The "Final Monthly Treasury Statement of Receipts and Outlays of the United States Government" for September 30, 1995, which included receipts and outlays for the HI Trust Fund for FY 1995 , was released by the Financial Management Service of the Department of the Treasury on October 27, 1995.
+ Four thousand copies of this report were distributed to the public, including individual copies for every Congressman and extra copies for the Budget and Appropriation Committees in the House and Senate and the Congressional Budget Office.
+ The Administration did not make a specific announcement about the status of the Trust Fund because this information is officially reported to Congress in the annual HI Trustees report. This report is typically delivered in April but will be delayed by about six weeks this year because of the government furlough and snow storms.
+ Furthermore, the HI Trust Fund balance at the end of the year is only one of the factors considered in projections of the long term solvency of the HI Trust Fund.

o How did the Trustees estimates of HI income and expenditures for FY 1995 compare to the actual results?

+ Total income was overestimated by 1.2 percent. (see below)
+ Benefit payments, and total disbursements, were underestimated by 3.0 percent. (see below)
+ Such differences are within the range of normal variation. Over the past 10 years, estimates of total income have consistently fallen within ±1.5 percent of actual experience. In 9 of the past 10 years, estimates of total disbursements have fallen within ±4.0 percent of actual experience.

	Projection	Actual	Difference
Total Income	$116.2b	$114.8b	- 1.2%
Payroll taxes	99.7	98.1	- 1.6
Other income	16.5	16.7	+1.2
Total disbursements	$111.5b	$114.9b	+3.0%
Benefits	110.3	113.6	+3.0
Administrative	1.2	1.3	+8.3

Medicare Trust Fund File

February 8, 1996

BY FAX
The Honorable Charles A. Bowsher
Comptroller General of the United States
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Comptroller General:

I read with sadness the February 6 letter to you from Representatives Archer and Thomas asking for an investigation of when the Administration knew that the Medicare Part A Trust Fund balances were lower than expected.

The answer of course is that the whole world knew when Treasury issued its Monthly Statement for September. The information is on page 28, as plain as the nose on your face. (I note from the Monthly statement for December received in my office today that for the last three months of 1995, we are back in the black with a surplus-over-outlays of $747 million--and one could ask when the Republican members will learn of this and issue a press release about this good news?)

Their request is a totally unproductive, wasteful, irresponsible use of GAO resources. They probably expect First Cat Socks to be the one responsible for their not reading the Treasury's public document. Be sure to check for paw tracks. America's seniors deserve a more constructive and responsible attention to the problems confronting Medicare.

Don't spend more than $10 on it (attached is a ten dollar bill to cover the cost), but please include in your report the cost to GAO, and the cost to all the Executive Branch employees you contact, of the time and resources spent on this witchhunt. Also please include information on when any Legislative Branch staff (and which staff) were informed of the September shortfall. Thanks for your help.

You MAY ENJOY!

Sincerely,
/s/
Pete Stark
Ranking Minority Member

NEWS

Congressman Pete Stark

California - Thirteenth District U.S House of Representatives

For release
February 8, 1996

Contact: Ellen Dadisman
202-225-4021

REPUBLICAN MEDICARE PROPOSAL PERMITS H.M.Os TO CHARGE SENIORS EXTRA FOR BASIC BENEFITS--FEEDS MILLION DOLLAR SALARIES OF SOME H.M.O. EXECUTIVES

Rep. Pete Stark (D., CA) today criticized the latest Republican Medicare proposal as providing a windfall to HMOs and their managers and socking seniors with extra bills for basic Medicare services. The proposals are contained in the latest version of the Republican offer to the Democrat "Blue Dog" coalition.

"The Republicans proposal to let HMOs charge seniors and disabled more for the basic Medicare benefits is an outrageous gift to for-profit HMOs whose executives are already making millions," said Stark. "The Republican bill would let an HMO charge a Medicare beneficiary an extra premium if the government's payment to the plan does not cover the cost of providing the Medicare package of services. What incentive is there for the HMO to control costs? They can just extra bill the patient and keep drawing outrageous salaries and 20 to 30% overhead. This proposal destroys the concept of HMOs as a cost containment device."

"Blue dogs aren't dumb dogs, and I believe the Coalition will see through this gross shift of costs to seniors," said Stark. "When 11.5 million seniors are living on less than $8500 a year in income, we don't need to let the new wave of for-profit HMOs increase their profits at retirees' expense."

Stark pointed to press reports of December 27 on the Crystal Report of executive compensation. The study by Graef S. Crystal, a California-based specialist on executive compensation, found that total pay, bonus and option packages for health care insurance executives is now higher than for any other industry. For example, the report found that Daniel Crowley of Foundation Health Corporation made $6.1 million and Leonard Abramson of US Healthcare made $3.99 million.

"The Republican bill would make sure these kinds of executives can continue to live in the style to which they are accustomed, while millions of low-income seniors will pay more," said Stark.

CHRIS — LOOKING FOR IDEAS ON HOW TO EXPLAIN BETTER THESE CONSUMER-TYPE ISSUES

BILL

The Republican Medicare bill will cost the nation's seniors an extra $6.8 billion per year in doctors' bills, predicted ________.

DRAFT

Mr. Speaker:

The Republican Medicare bill will cost the nation's seniors an extra $6.8 billion per year in doctors' bills. There is no way to determine this number for sure, but I predict we will return to the same rate of balance billing we had before 1985--the year that Congress started to encourage doctors not to charge seniors extra.

Why would doctors return to this high rate of extra charges? Because the Republican bill undoes the consumer provisions in Medicare that protect retirees against doctors charging more than Medicare's fee schedule.

The Republican Medicare bill allows doctors to set up fee-for-service plans where there are no limits on how much can be charged. It allows HMOs to charge more for the basic package of Medicare services. It permits specialists that a beneficiary goes to see outside of his or her managed care plan to charge anything they want. Those who elect the Medical Savings Account option will also lose all protection against 'the-sky's-the-limit' billings. The Republican plan so starves payments for traditional Medicare fee-for-service programs that doctors will want to switch to these new systems where they can charge without limit.

That's why I predict we will return to at least the old level of balance billing.

Beginning in 1985, Congress passed a series of laws designed to encourage doctors to accept as payment in full the amount proposed by Medicare. As a result, Medicare beneficiary liability for excessive doctors' bills fell from $2,812,700,000 in 1985 to $1,317,000,000 in 1992. In current, 1995 dollars, that is a decline from $5.5 billion to $1.5 billion. When you factor in the growth in Medicare and assume a return to the old ratio of balance billing, you get $8.3 billion in extra charges. Subtract the current $1.5 billion in extra billing, and you have an additional cost of $6.8 billion from the Republican plan.

Seniors have been paying less out of pocket for medical bills in recent years, because assignment rates (the percent of allowed charges for which physicians accept the Medicare fee as payment in full) has gone up, from 70% in 1986 to 92% in 1993. Balance billing--charging seniors more than the Medicare fee schedule--has also declined dramatically.

In plain English, this simply means that when a senior goes to see a doctor, chances are he or she won't have to pay more than 20% (the co-insurance) of a set fee. There won't be extra charges. The 75% of Medicare patients who have incomes of less than $25,000, won't have to pay more to the average doctor, whose annual income in 1994 was $150,000.

The Republican bill changes all that.

If we return to the rate of extra charges that we had in 1985--and I predict we will--then the increased cost to seniors will be about $6.8 billion per year, or an increase of $187 per senior in out of pocket expenses. The Republicans will also charge seniors $120 more per year in Part B premiums than the President proposes. Put the two together, and the average individual senior will see an increase of $307--a couple $614--in increased out-of-pocket costs.

Managed care can be promoted. Medicare can offer more choices of managed care plans to seniors--but we don't need to return to the days of wallet biopsies and price gouging.

I urge that in whatever Medicare changes are made, we preserve the limits on doctors' extra charges.

The Honorable Bill Archer
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D. C. 20515-6348

Dear Representative Archer:

I am responding to your letter of February 5, 1996 regarding the status of the Hospital Insurance (HI) Trust Fund.

Before I respond directly to the questions you posed, I would like to clarify one point. Your letter states that the HI Trust Fund "went broke" in 1995. The Trust Fund did not go "broke" in fiscal year 1995. The term "broke" is generally used to mean that a fund is out of money, which is not the case with the HI Trust Fund. In fiscal year 1995, total expenditures from the Trust Fund ($114.883 billion) slightly exceeded the fund's total income ($114.847 billion). Consequently, the fund's net assets remained above $129 billion, declining from $129.555 billion at the beginning of fiscal year 1995 to $129.520 billion at the end of the year.

The Trustees make three sets of projections concerning the future status of the Trust Fund each year. To reflect the inherent uncertainty in projections, the future of the Trust Fund is examined under three alternative sets of assumptions: intermediate, low cost, and high cost. The intermediate set of assumptions represents the Trustees' best estimate of the expected future economic and demographic trends that will affect the financial status of the program.

Based on the intermediate set of assumptions, the 1995 Trustees Report estimated that: (1) HI Trust Fund income would exceed expenditures by $4.7 billion in fiscal year 1995; (2) income would approximately equal expenditures in fiscal year 1996; and (3) income would fall short of expenditures by approximately $5 billion, in fiscal year 1997. The estimates rely on a number of assumptions, including projections of the number of beneficiaries, changes in the age and health status of beneficiaries, trends in health care inflation, increasing use of new technologies, and changes in the use of health services, among other factors. Estimates of future health care expenditures are inherently less certain than estimates for many other Federal programs because so many factors affect expenditures. Actual expenditures in the Trust Fund were 3.1 percent higher than estimated by the HCFA actuaries.

The Congressional Budget Office also estimates the future operations of the Trust Fund. The CBO estimates were very similar to the intermediate Trustees Report estimates, and also projected a surplus. For comparison purposes, the CBO estimates for fiscal year 1995 are shown below together with the intermediate estimates from the 1995 Trustees Report (amounts in billions). For comparison purposes, the CBO estimates for fiscal year 1995 are shown below together with the intermediate estimates from the 1995 Trustees Report (amounts in billions).

	1995 Trustees Report	CBO March 1995 baseline	Actual
Income	$116.2	$116.6	$114.8
Expenditures	111.5	113.6	114.9
Net change in assets	4.7	3.0	(2)
Assets at end of year	134.3	131.7	129.5

1 Intermediate set of assumptions..
2 Deficit of $36 million.

Your first question asks when the Administration became aware of the performance of the Trust Fund in FY 1995. Each month, the Treasury Department issues public reports that track cash outlays and the balance in the Trust Fund. Information on the HI Trust Fund income and outlays together with the Fund's invested assets at the end of fiscal year 1995 was reported in the "Final Monthly Treasury Statement of Receipts and Outlays of the United States Government" for September 30, 1995. This was released by the Treasury Department on October 27, 1995. In late November, the HCFA actuaries received more detailed information from the Treasury Department based on this report. The actuaries informed HCFA Administrator Bruce Vladeck of the Trust Fund's status on December 2, 1995. The Administrator subsequently briefed me on these findings in a meeting on December 9, 1995. The Administrator, as Secretary to the Board of Trustees, noted the Trust Fund's performance for FY 1995 at the Trustees' regular meeting on December 13, 1995.

Your second question asks why the Administration did not make this information public until February 5th. Four thousand copies of the October 27, 1995 Treasury Department report were distributed to the public, including individual copies for every Member of Congress, with extra copies for the Budget and Appropriations Committee, the Ways and Means Committee, the Finance Committee and the Congressional Budget Office. Moreover, performance of the Trust Fund was also noted at the December meeting of the HI Board of Trustees, which includes two public trustees.

Data about the actual performance of the Trust Fund are available throughout the year and at year's end. However, the Trustees' analysis of factors affecting the fund and projections for future years are not made available until the Trustees issue their annual report. Although their report is typically issued in April, the HCFA actuaries have informed me that this year's report may be delayed by about six weeks because of the government furlough and snow storms.

In your third question, you ask for the latest solvency projections for the Trust Fund. The HCFA actuaries have provided me with the following preliminary information. If no other changes in assumptions were made from the 1995 intermediate Trustees Report estimates, other than to reflect the actual experience in fiscal year 1995, they would estimate that the Trust Fund would be depleted in about the middle of calendar 2001 (as opposed to late in calendar year 2002 as estimated in the last Trustees Report). However, the 1996 Trustees Report will reflect additional months of experience subsequent to fiscal year 1995, new analyses of the factors affecting HI benefit growth during 1990-95, updated projections of HI payroll tax income and revenue from the taxation of OASDI benefits, current interest rate expectations, and several other factors. After taking all of these factors into account, the estimated depletion date for the Trust Fund will probably be earlier than shown in the 1995 report. A more precise estimate will not be known until the new projections are completed.

This Administration remains committed to extending the solvency of the Medicare Trust Fund and achieving a balanced budget. The President's 1993 budget bill added three years to the life of the Trust Fund. Further, based on current estimates, the President's seven year balanced budget plan would extend solvency of the Trust Fund to 2011 -- 15 years from today.

A similar letter is being sent to the other authors of your letter.

Sincerely,

Donna E. Shalala

OFFICE OF LEGISLATIVE &
INTER-GOVERNMENTAL AFFAIRS
FAX COVER SHEET

\# of Pages: Cover + 2

DATE: 2/7/96

TO: Chris

Fax: 456-7431

Phone:

FROM: Debbie

Fax: (202) 690 - 8168

Phone:

REMARKS:

Here's the Bruce cover letter and Rick's official letter.

Let me know what to do.

HEALTH CARE FINANCING ADMINISTRATION

Washington, D.C.

DEPARTMENT OF HEALTH & HUMAN SERVICES **Health Care Financing Administration**

Washington D.C. 20201 – 0001

Date: February 7, 1996

From: Chief Actuary, HCFA

Subject: Estimated Year of Exhaustion for HI Trust Fund under the Administration's Balanced Budget Proposal

To: Administrator, HCFA

The purpose of this memorandum is to respond to your request for the estimated year of exhaustion for the Hospital Insurance Trust Fund under the Medicare provisions in the Administration's balanced budget proposal. Based on the intermediate set of assumptions in the 1995 Trustees Report, we estimate that the assets of the HI Trust Fund would be depleted in the first half of calendar year 2012 under the Administration's proposal.

In the absence of corrective legislation, the Trustees Report estimated that HI Trust Fund depletion would occur in the fourth quarter of calendar year 2002 under the intermediate assumptions. Thus, the Administration's proposal would postpone the year of exhaustion by about 9 years.

The financial operations of the HI Trust Fund will depend heavily on future economic and demographic trends. For this reason, the estimated year of depletion is very sensitive to the underlying assumptions. In particular, under adverse conditions such as those assumed by the Trustees for their "high cost" projections, asset depletion could occur roughly 2 to 3 years earlier than the intermediate estimate. Conversely, favorable trends could delay the year of exhaustion significantly. The 1996 Trustees Report, to be issued this Spring, will incorporate the latest data on medical care costs, utilization levels, etc. Based on the updated assumptions, the estimated exhaustion date could change somewhat; however it is likely that the Administration's proposal would still postpone the year of exhaustion by about 9 years compared to present law.

The estimated year of exhaustion is only one of a number of measures and tests used to evaluate the financial status of the HI Trust Fund. If you would like additional information on the estimated impact of this proposal, I would be happy to provide it.

Richard S. Foster

Richard S. Foster, F.S.A.
Chief Actuary

DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care Financing Administration

Washington D.C. 20201 – 0001

February 8, 1996

DRAFT

The Honorable Thomas Daschle
United States Senate
Washington, D.C. 20510

Dear Senator Daschle:

This is in response to your request for information about the effect of the Medicare savings proposal in the Administration's balanced budget proposal on the exhaustion date of the Hospital Insurance (HI) Trust Fund. We anticipate these Medicare proposals would achieve $124 billion in savings over 7 years using CBO economic and technical assumptions.

Attached is a memorandum that I have received from the Chief Actuary of the Health Care Financing Administration (HCFA). This memo indicates that the Medicare savings proposals would postpone the insolvency date from late in 2002 to early in 2012, thereby postponing the year of exhaustion of the HI Trust Fund by about 16 years. This estimate is based on the 1995 Annual Report of the Board of Trustees of the Federal Hospital Insurance Fund intermediate assumption baseline and could differ somewhat once the 1996 estimates are available.

Please let me know if I can provide any further information.

Sincerely,

Bruce C. Vladeck

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

SUBCOMMITTEE ON HEALTH

February 7, 1996

Mr. Gene Sperling
Deputy Assistant to the President
for Economic Policy
The White House
2nd Floor, West Wing
1600 Pennsylvania Avenue
Washington, DC 20502

Dear Mr. Sperling:

In response to my concern over whether the Clinton Administration withheld information from the public about Medicare's just-discovered financial shortfall, I couldn't help but notice in yesterday morning's papers that you dismissed my inquiry by stating that the Administration had released the news about the shortfall in an October 27, 1995, report from the Treasury Department.

As you may know, however, Secretary of the Treasury, Robert Rubin, who also happens to be a Medicare Trustee, and Director of the Office of Management and Budget, Alice Rivlin, stated in yesterday's Wall Street Journal that they were unaware of the shortfall until they read about it in Monday's *New York Times*.

The October 27 report you cite was issued by Secretary Rubin and Director Rivlin. Accordingly, there seems to be a conflict between your statement and theirs. On the one hand, you say you made the information public; on the other hand, senior Administration officials were unaware of the information, even though they issued it.

I remain deeply concerned that the Clinton Administration failed to fully and properly disclose that Medicare had gone broke when it first learned the information.

Clearly, someone in the Administration knew enough about the shortfall to hide it in an arcane 47-page statistical release from the Department of the Treasury's Financial Management Service that listed *all* receipts and outlays for the entire United States Government.

Yet, no one in the Administration saw fit to highlight the information so that policy makers in Congress could become aware of it. Indeed, apparently no one in the Clinton Administration brought it to the attention of Secretary Rubin or Director Rivlin so they could understand what was in the statement they themselves issued on October 27th.

I deeply regret that the Administration continues to play political games with the fate of our nation's Medicare program. At a time when Medicare faces bankruptcy, perhaps sooner than expected, it is most unfortunate that the Administration would hide relevant facts in an effort to derail the Congressional bill to save Medicare.

Knowing the Administration's ability to publicize certain information that suits the President's political purposes, I find your statement that you released the news about the shortfall last October unacceptable and lacking in candor.

Chairman Archer and I have already contacted Secretary Shalala to request all relevant documents concerning the manner in which the Clinton Administration handled the news about the earlier-than-expected Medicare shortfall.

I look forward to receiving all appropriate information so that the Congress can completely and thoroughly review the Administration actions on this most important matter.

Sincerely,

Bill Thomas

Bill Thomas
Chairman

MEMORANDUM

file

TO: **Distribution** **October 31, 1995**
FR: **Chris J.**
RE: **Intra-Program Revenue Transfers and the Medicare Trust Fund**
cc:

In virtually every major Medicare restructuring proposal that is now before the Congress (with the apparent exception of the Sabo/Stenholm plan), there are provisions to transfer Part B revenue into Part A and/or to transfer Part A liabilities into Part B. The Senate and House-passed Republican Reconciliation measures and both Democratic Leadership alternatives contain at least one of these transfer mechanisms.

Background

There are two driving forces pushing the Congress to alter traditional funding stream allocations within the program. First, the unprecedented and hyped up focus on the Medicare Trust Fund exhaustion date and the competitive desire to push back the date as far as possible. And second, the desire to reduce the burden of the Medicare cuts on Part A providers, particularly hospitals. (In some cases, there is also a desire to ensure that Part B providers, particularly physicians, carry their "fair share" of the load.)

The most utilized transfer mechanism is a straight general revenue transfer from Part B to Part A. It can be found in both Republican budget bills and in the Senate Democratic package. Like the Part A home health liability transfer (discussed below), this mechanism is being used to add years to the Trust Fund and to moderate the Part A cuts. The Part B transfer, however, makes Republicans more vulnerable to the critique that they could have just as easily reduced their tax cut and used the resulting excess general revenues to extend the Trust Fund exhaustion date.

The other transfer mechanism tapped by Republicans and Democrats in the House simply redirects the liability of some portion of home health care expenditures from Part A to Part B of the program. The home health transfer, which has some policy rationale but also has budgeting and administration complications, has the advantage of enabling policymakers to reduce the amount of traditional Part A cuts (from providers like hospitals) that are necessary to strengthen the Part A Trust Fund .

Attached are tables outlining the net impact on Medicare Part A that results from the transfers used by various Congressional bills. As one looks through these plans, the question arises as to whether we should consider supporting or advocating similar types of measures.

SENATE REPUBLICAN RECONCILIATION ITEMS AFFECTING PART A SAVINGS
(Source: CBO, 10/20/95)

Source	7-year Savings Estimates (CBO estimates, 1996-2002)
Part A - Provider Savings/1	$120.5
Transfer of Certain Part B Savings/2	$67.5
Total Part A Budget Effects	$188.0

SENATE DEMOCRATIC RECONCILIATION ITEMS AFFECTING PART A SAVINGS
(Source: Preliminary CBO Staff Estimate, 10/25/95)

Source	7-year Savings Estimates (CBO estimates, 1996-2002)
Part A Provider Savings /1	$66.5
Transfer of Certain Part B Savings /3	$23.6
Total Part A Budget Effects	$90.1

/1 Includes managed care, fraud & abuse, Medicare secondary payer (assumes 60% savings are Part A)

/2 The savings resulting from the Part B premium ($44.2 billion), deductible ($10.5 billion), and high income premium ($12.8 billion) will be placed in the HI Trust Fund

/3 The proposal appropriates to the HI Trust Fund amounts equal to Part B savings.

HOUSE REPUBLICAN RECONCILIATION ITEMS AFFECTING PART A SAVINGS

(Source: CBO, 10/20/95)

Source	7-year Savings Estimates (CBO estimates, 1996-2002)
Part A Provider Savings /1	$128.2
Repeal of OBRA '93 Social Security tax for HI	($36.6)
Subtotal /2	$91.6
Transfer General Revenues/ Pay for OBRA '93 tax repeal /3	$36.6
Home Health Transfer from Part A to Part B /4	$54.3
Total Part A Budget Effects /5	$182.5

HOUSE DEMOCRATIC RECONCILIATION ITEMS AFFECTING PART A SAVINGS

Committee Action (Source: CBO, 10/12/95)

Source	7-year Savings Estimates (CBO estimates, 1996-2002)
Part A - Provider Savings /6	$68.4
Savings from the Transfer of Home Health to Part B /7	$59.0
Total Part A Budget Effects	$127.4

NOTE: The Lock-box provision would hold savings from Part B in a Trust Fund. There is no provision at this point to transfer of these monies to the HI Trust Fund. Beginning with FY 2003, the Secretary may expend funds in the Trust Fund, but only to the extent provided by Congress in advance through a specific amendment.

/1 Includes 60% of savings from these provisions: managed care, fraud and abuse, medical liability reform, regulatory relief, investigational devices, failsafe, and Medicare secondary payer

/2 In general, as passed out of the House Ways and Means Committee

/3 Transfer of Home Health from Part A to B would result in an increase of $54.3 billion in Part B expenditures

/4 This analysis assumes that the OBRA '93 tax repeal is separately paid for with non-Medicare provisions. If the money for the tax repeal were taken out of Medicare, this would affect the $270 billion Medicare savings estimate.

/5 As revised, pre-House floor action

/6 Includes fraud and abuse, managed care, and Meeicare secondary payer provisions (assumes 60% of savings are Part A)

/7 The proposal limits home health visis under Part A to 120 vistis. All subsequent visits would be paid by Part B. This results in a transfer of outlays from Part A to Part B.

The Clinton Administration On Strengthening the Medicare Trust Fund

The record is clear that President Clinton and his administration have taken strong steps to protect and strengthen the Medicare trust fund since the beginning of the Clinton Administration. It is equally clear that Speaker Gingrich's and others' sudden interest in this issue has been driven simply by the need to justify the large Medicare savings they need to make good on their arbitrary campaign promises to balance the budget and to cut taxes excessively.

One week after President Clinton presented his plan, his top economic spokesperson, Treasury Secretary Lloyd Bentsen, made the case for strengthening the Medicare trust fund:

> "Mr. Chairman, let me speak to you for a minute wearing my hat as Chairman of the Board of Trustees of the Social Security Trust Funds. I know that you share my concern over the financial health of the Medicare fund, which according to the 1992 Trustees Report will be exhausted by 2002.
>
> "Therefore, I am sure that you are as pleased as I am that we are proposing that the savings from increasing the portion of Social Security benefits subject to tax go into the Medicare trust fund.
>
> "*This money, and the savings from reducing payments for providers, will not solve the entire problem -- to do that we need comprehensive reform of our health care system -- but they will extend the period of solvency.* The many Americans who depend on Medicare for their health care, will be reassured by our efforts to improve the financial health of the trust fund."
>
> --Testimony before the Senate Finance Committee, February 24, 1993

Through conversations and negotiations on the President's economic plan and health care proposal, the need to strengthen Medicare was repeatedly stressed:

> "President Clinton's health reform plan provides universal coverage; it improves and protects the Medicare program; and it achieves real cost containment that will help *ensure the solvency of the Medicare Trust Fund.*"
>
> -- Letter to Editor from Bruce Vladek, President Clinton's Administrator of the Medicare program, Los Angeles *Times*, June 9, 1994

"Lowering the rate of growth in Medicare spending is perhaps the most important thing we can do for beneficiaries. Lower expenditures mean that beneficiaries pay less out-of-pocket in the form of coinsurance and deductibles. It also means that future beneficiaries can look forward to a stronger, more financially sound Medicare program because reducing costs in both the Medicare program and the private sector will *serve to improve the long-term integrity of the Medicare trust funds.*"

-- Bruce Vladek, President Clinton's Administrator of the Medicare program, in testimony before the House Ways and Means Committee, February 2, 1994

"In addition to our savings proposals, we are also submitting revenue proposals to increase the Hospital Insurance Trust Fund by $55.8 billion.. . ."

-- Department of Health and Human Services, Press Release, "The Fiscal Year 1994 Budget"

"I think the intent of the President and of the policy is very clearly to maintain and strengthen the Medicare program."

-- Bruce Vladek, President Clinton's Administrator of the Medicare program, in testimony before the House Ways and Means Committee.

"Medicare's financial condition would improve significantly as a result of general cost containment under the President's health-care-reform proposal."

-- Secretary Donna Shalala, Los Angeles *Times,* April 12, 1994

"The Medicare program will be the most secure of the programs, because we're not going to change it dramatically. No matter what you hear, the Medicare program is going to stay intact. *More importantly, we're going to strengthen it.*"

-- Secretary Donna Shalala, Los Angeles *Times,* September 24, 1993

"I am here to say today that I don't want Medicare to be used as a bank for other people's designs. I do want to strengthen Medicare."

-- President Clinton, *USA Today*, February 18, 1994

"And I promise you this: We'll fight to protect and strengthen Medicare."

-- Vice President Al Gore, Fort-Lauderdale *Sun-Sentinel*, July 27, 1994

The trustees of the Medicare trust fund, most of whom are officials in the Clinton Administration, have also repeatedly stressed the issue and called upon Congress to act by enacting comprehensive health care reform:

> "With the magnitude of the projected actuarial deficit in the HI program and the high probability that the HI Trust Fund will be exhausted before the turn of the century, the Trustees urge the Congress to take additional actions designed to control HI program costs through specific program legislation and as a part of enacting comprehensive health care reform."
>
> --1993 Annual Report of the Trustees of the Federal Hospital Insurance Trust Fund, April 7, 1993

> "Rising health-care costs have left the Medicare trust fund with only enough money to pay hospital benefits for senior citizens and disabled Americans through this decade, according to a federal report released Tuesday....the [Medicare] trustees also suggested Congress address the Medicare trust fund's problems by controlling medical costs through a comprehensive health care reform package."
>
> -- "Medicare May Go Broke by 2000, U.S. Report Says," Chicago *Tribune,* April 7, 1993

> "Raising what is becoming a *perennial alarm,* the federal government said yesterday that Medicare program that pays hospital costs for the elderly and disabled will run out of money around the turn of the century, and *officials urged Congress to control costs, in part through health care reform.*"
>
> -- "Medicare Funding Remains a Concern," The Baltimore *Sun,* April 12, 1994

> "As part of OBRA '93, Congress took certain actions to increase revenue and reduce HI program expenditures to improve the financial status of this trust fund. While the status of the HI Trust Fund has improved since last year's report, it still does not meet the short-range test of financial adequacy."
>
> -- Medicare Trustees' Letter to Speaker Foley, April 11, 1994

> "The HI Trust Fund is expected to be exhausted in 2002. While the status of the HI Trust Fund has thus improved slightly since last year, it still does not meet the Board's test of short-range financial adequacy."
>
> -- Medicare Trustees' Letter to Speaker Gingrich, April 3, 1995

file: Trust Fund Pkg.

September 17, 1995

MEMORANDUM FOR WHITE HOUSE STAFF

FROM: GENE SPERLING

SUBJECT: **Speaker Gingrich's misleading statements about Medicare**

Speaker Gingrich has said that it is important that the American people be told the truth about Medicare. But the fact is that many of his comments and arguments about Medicare have been *seriously misleading and often outright wrong. Furthermore, while anyone can misspeak, he has constantly repeated these misleading claims* and they are at the heart of much of his case for unprecedented Medicare savings.

Below are five examples of central arguments on Medicare that the Speaker has made that are fundamentally misleading.

EXAMPLE #1. SPEAKER GINGRICH HAS REPEATEDLY SAID OR STRONGLY IMPLIED THE REPUBLICAN MEDICARE CUTS WOULD BE USED TO STRENGTHEN THE MEDICARE PROGRAM AND THE PART A TRUST FUND, AND *NOT* TO REDUCE THE DEFICIT OR PAY FOR TAX CUTS.

> "[W]e have decided that we're taking Medicare into a separate box. *Every penny saved in Medicare should go to Medicare.* Every change should be made about Medicare. It should not be entangled in the budget debate."
>
> -- Newt Gingrich, April 28, 1995

> "*It's not tied into the budget. It's not tied into getting to balance by 2002. Now, it is tied into meeting the trust fund requirements,* making sure that the system is affordable, getting us to a point where the baby boomers someday will be able to retire without bankruptcy."
>
> -- Newt Gingrich, April 28, 1995

> Speaker Gingrich "promised to remove Medicare from deficit reduction demands -- and to use any savings achieved by restructuring Medicare solely to save the Medicare trust fund itself from looming bankruptcy."
>
> -- The New York *Times*, May 3, 1995

FACT: REPUBLICANS RAISE MEDICARE PART B PREMIUMS THAT DO NOT GO INTO THE TRUST FUND:

- Despite the constant comments by Republicans that the entire reason for Medicare savings is to shore up the Medicare trust fund, this is not true. **The truth is *not one penny* of the premium increases in the Republican budget plan just unveiled will go to the Medicare trust fund.** Instead, the premium increases go into general revenues. While a growing program can have a negative impact on general revenues and therefore deficit reduction, such growth can be countered by any reduction in spending or general revenues. For example, if people feel that Medicare Part B growth is having too large of an impact on the deficit, one can cure that by other steps affecting general revenues -- such as lowering the size of a large tax cut.

EXAMPLE #2: SPEAKER GINGRICH HAS REPEATEDLY STATED THAT REPUBLICAN MEDICARE CUTS ARE DRIVEN BY THE NEEDS OF THE MEDICARE TRUST FUND AND NOT THE NEED TO BALANCE THE BUDGET.

> "*Everything we're doing in Medicare is driven by the actuaries' estimate of what it takes to build a savable system; it's not driven by a budget need.* We are in fact prepared to reshape all the other spending in the budget to fit the Medicare situation... including defense. We're prepared to look at everything. I mean, I've always said everything's on the table."
>
> -- Newt Gingrich, May 5, 1995

> "**So we want to focus on Medicare as Medicare. Forget the budget pressure.** Let's find out what number saves Medicare. We'll plug that into the budget. *We're not going to find out what number the budget needs and try to reshape Medicare to that effect.*"
>
> — Newt Gingrich, *Meet the Press*, May 7, 1995

FACT: MEDICARE SAVINGS ARE INTEGRAL TO THEIR PLAN TO BALANCE THE BUDGET AND ACHIEVE A LARGE TAX CUT:

- The clear fact is that the $270 billion in Medicare savings make up about 25% of the savings called for in their budget plan. CBO must certify that their proposals produce these savings levels before Congress can consider the tax cut that Speaker Gingrich has called the "crown jewel" of his program. The Republican budget plan does not come close to reaching balance without their deep Medicare cuts. Indeed, Speaker Gingrich's spokesperson, Tony Blankley candidly admitted, "At the end of the process, whatever solutions are reached on Medicare will be part of the budget's bottom line." [Washington *Post*, May 2, 1995]

- **The truth is that the sudden concern with the Medicare trust fund has been driven by the targets in the Republicans' budget plan.** Speaker Gingrich *never* expressed concern about the trust fund until 1995 when he was developing his plan to balance the budget -- even when the trust fund was in *greater* danger than it is now. Indeed, the only thing new in the 1995 Medicare trustees report was that the trust fund's solvency *improved* by one year.

Speaker Gingrich has refused to explain his inconsistency on this issue:

"Dole and Gingrich insisted yesterday that Medicare was in crisis, holding aloft a recent report by the Medicare trustees that the portion of Medicare that pays for hospital expenses will run out of money in 2002. ***But they abruptly walked out of the news conference after increasingly skeptical reporters pointed out that the trustees' report this year was more positive than last year.*** The House Republican tax-cut bill also worsens the solvency of the Medicare trust fund by repealing a tax Clinton passed in 1993 to shore it up."

-- *Newsday*, May 3, 1995

EXAMPLE 3: SPEAKER GINGRICH HAS CONTINUALLY CREATED THE IMPRESSION THAT THE CRISIS WITH THE MEDICARE TRUST FUND AROSE WITH THE RELEASE OF THE 1995 TRUSTEES REPORT.

> "...House Speaker Gingrich Tuesday asked President Clinton in a letter to send to each beneficiary a copy of the 1995 Medicare trustees' report saying the program would go broke in seven years. 'It is because of this impending bankruptcy that Republicans in Congress are committed to bold and decisive action to preserve, strengthen and protect Medicare...'"
>
> -- *Congress Daily,* July 26, 1995

> "[w]e would need to reform Medicare because it goes broke. Medicare Part A, which is the hospital part, is a trust fund. That trust fund, according to the Clinton Administration trustees, goes broke starting next year and is bankrupt in 2002."
>
> -- Interview with Charlie Rose, July 6, 1995

FACT: THE ONLY THING NEW ABOUT THE 1995 TRUSTEES REPORT WAS THAT THE TRUST FUND HAD IMPROVED BY A YEAR:

- The truth is that Medicare trust fund solvency issues are not new. If the Speaker had looked at the 1993 and 1994 trustees reports, he would have known that when the President took office in 1993 the trust fund was suppose to be insolvent in 1999.

- The President laid down a plan in 1993 to strengthen the trust fund, and Secretary Bentsen and other top Administration officials repeatedly told the Congress of the need to pass the President's plan in order to strengthen the trust fund. Gingrich not only ignored the issue of the trust fund, he led the Republicans in all voting against these savings. In 1994, when the Administration stressed that health care reform was needed to strengthen the trust fund, Gingrich and others again ignored the issue.

- Indeed, the only provision in the *Contract with America* relating to the Medicare trust fund made it worse. The Contract called for repeal of the increase in the Social Security benefits tax for high-income seniors -- a provision that helped improve the financial status of the trust fund. If the provision in the Contract is enacted, the trust fund will go insolvent 8 months sooner.

EXAMPLE #4. SPEAKER GINGRICH HAS SAID THAT MEDICARE COSTS SHOULD GROW AT THE SAME RATE AS COSTS IN THE PRIVATE SECTOR.

"Well, if you have a government program which is going up at 10–1/2 percent a year and you have *private sector health care that is going up at one percent...* it does seem to mean you start asking some questions about why is it that this centralized government bureaucracy has a 10–1/2 percent a year increase when in the private sector you're getting one, two, three, four percent increases?"

-- *Meet the Press*, Sunday, May 7, 1995

FACT: CBO RECOGNIZES THAT THE CURRENT PRIVATE SECTOR GROWTH RATE PER PERSON IS ABOUT 7% -- NOT 1% AS SPEAKER GINGRICH HAS SUGGESTED:

- According to CBO, "[t]he growth of private health insurance premiums will average about 7 percent a year between 1995 and 2005." [CBO, *The Economic and Budget Outlook: An Update*, August 1995, p. 84.] And the Medicare beneficiary population tends to have greater health care needs than people with private insurance.

- The truth is the Republican budget plan would lower the growth of Medicare spending per person significantly below the private sector growth rate. The Republican $270 billion Medicare cut would constrain Medicare to an unrealistic 4.9% per beneficiary growth rate -- well below the 7.1% private sector growth rate.

EXAMPLE #5. SPEAKER GINGRICH CLAIMS THAT MEDICARE CURRENTLY GIVES PEOPLE NO CHOICE AND IS PLAGUED WITH PROBLEMS.

> "We are going to rethink Medicare from the ground up. ..... *The current highly centralized bureaucratic structure offering one menu for everybody in a monopolistic manner is the opposite of how America works.* And so we need to start from the senior citizens, with their help, thinking through how we get to a better Medicare system that actually works more effectively, that gives them greater choices, but that is also financially more honest."
>
> -- Newt Gingrich, January 30, 1995

FACT: THE TRUTH IS MEDICARE CURRENTLY PROVIDES THE VAST MAJORITY OF SENIORS WITH MULTIPLE OPTIONS.

- Most Medicare beneficiaries choose to receive their health care services through the traditional fee-for-services delivery system, which allows them to choose their own health care provider and hospital. *But millions of other beneficiaries currently choose to enroll in managed care plans* such as HMOs or competitive medical plans that have contracts with the Medicare program. A beneficiary enrolling in a managed care plan often has coverage for services not offered under Medicare, such as prescription drugs. [Source: Congressional Research Service, *Medicare SELECT*, April 19, 1995.]

- The truth is that Medicare is one of the most popular and successful programs ever created. Medicare is extremely popular among the American people because it has so successfully reduced the crushing financial burdens faced by seniors and their families.

CHANGING THEIR TUNE: WHAT REPUBLICANS SAID ABOUT MEDICARE CUTS IN 1994

Back in 1993 and 1994, Republican members warned that the cuts proposed in the Health Security Act (H.R. 3600) -- though significantly smaller than the $270 billion in cuts they now propose -- would devastate the system.

> *"The Clinton plan may save the Government some money in the short run by imposing strong limits on Medicare and Medicaid -- but this will be to the detriment of program beneficiaries. It is impossible to cut $238 billion from these programs without substantially harming the people we are supposed to be helping."*
>
> -- Senator McCain, "The President's Health Care Plan," Congressional Record, September 23, 1993, S 12281.

> *"The Clinton-Mitchell health care reform bill is not simple justice. There is nothing simple about this bill -- nothing. It is complex. I want to talk about the justice in this bill. Is it justice to take almost $200 billion out of the Medicare program, severely jeopardizing its future?"*
>
> -- Senator Hatch, "Health Security Act," *Congressional Record,* August 11, 1994, S 11834.

> *"Make no mistake about it for the elderly in this country, [these cuts are] going to devastate their program under Medicare."*
>
> -- Congressman Bill Archer, June 25, 1994, speaking against proposed Medicare expenditure reductions during Ways and Means Committee consideration of H.R. 3600.

> *"The Medicare cuts proposed by the President would devastate the Medicare program.... The committee must not approve these destructive Medicare cuts."*
>
> -- Congressman Clay Shaw, May 18, 1994, press release referring to H.R. 3600.

> *"I just don't believe that quality of care and availability of care can survive these additional cuts. And that is the price that is going to have to be paid for these cuts."*
>
> -- Congressman Bill Archer, June 25, 1994, speaking against proposed Medicare expenditure reductions during Ways and Means Committee consideration of H.R. 3600.

Back in 1994, Republicans warned that providers could not afford any additional increases in costs. Only one year later, Republican members are supporting proposals to significantly increase these burdens.

"The reimbursement levels of Medicare have reached potentially disastrous levels...."

-- From the Minority Views included with the Ways and Means Committee Report on the Health Security Act (H.R. 3600) signed by every Republican Member of the Committee, July 14, 1994.

"For more than a decade Congress has cut back on payments to doctors and hospitals until they no longer cover the cost of care for Medicare . . . .patients and the additional massive cuts in reimbursements to providers provided in this bill [H.R. 3600] will reduce the quality of care for the nation's elderly. There will be no place else to shift."

-- From the Minority Views included with the Ways and Means Committee Report on the Health Security Act (H.R. 3600) signed by every Republican Member of the Committee, July 14, 1994.

Back in 1994, Republican members decried any cuts in Medicare used to meet deficit targets or to fund tax cuts, little knowing that their own party would soon follow precisely that path.

"I would love to believe that we could achieve the level of cuts you have in this bill .... But history tells us that this isn't possible. And I think we are just playing games here, we are just making the numbers match. That's all Democrats have done in your bill to make it revenue neutral. You have just estimated the number needed from Medicare to make the numbers match, and I think the public understands that."

-- Congressman Jim McCerry, June 25, 1994, speaking against proposed Medicare expenditure reductions during Ways and Means Committee consideration of H.R. 3600.

"Medicare Part A, I hope, will not be on the table [to fund tax cuts] because I would like to see that reserved for when we reform the health care later on next year."

-- Congressman Bill Archer, Dec. 18, 1994, on "Meet the Press"

"I think those of us on this committee especially well remember the lessons of Medicare catastrophic coverage legislation, and recognize that making changes without broad public support is a potential disaster."

-- Congressman Clay Shaw, May 18, 1994, press release referring to H.R. 3600.

Compiled based on documents prepared by the Democratic staff of the House Ways and Means Committee and others.

i ; . .. aaron\medquote

PRESIDENT CLINTON HAS TAKEN ACTION TO INCREASE THE SOLVENCY OF THE MEDICARE TRUST FUND

The record is clear that from day one, the Clinton Administration has taken strong steps to protect and strengthen the Medicare trust fund. It is equally clear that Speaker Gingrich's and others' sudden interest in this issue has been driven simply by the need to justify the large Medicare cuts they need to make good on their arbitrary campaign promises to balance the budget in seven years while giving an excessive tax cut to the wealthiest Americans.

The President designed all of his budget and health care reform proposals within the context of strengthening the Medicare trust fund.

I. <u>1993: The Economic Plan</u>

At the beginning of the Clinton Administration, the Medicare trust fund was projected to be insolvent in 1999.

In 1993, one week after President Clinton presented his economic plan, his top economic spokesperson, Treasury Secretary Lloyd Bentsen, made the case for strengthening the Medicare trust fund:

> "Mr. Chairman, let me speak to you for a minute wearing my hat as Chairman of the Board of Trustees of the Social Security Trust Funds. I know that you share my concern over the financial health of the Medicare fund, which according to the 1992 Trustees Report will be exhausted by 2002.
>
> "Therefore, I am sure that you are as pleased as I am that we are proposing that the savings from increasing the portion of Social Security benefits subject to tax go into the Medicare trust fund.
>
> "*This money, and the savings from reducing payments for providers, will not solve the entire problem -- to do that we need comprehensive reform of our health care system -- but they will extend the period of solvency.* The many Americans who depend on Medicare for their health care, will be reassured by our efforts to improve the financial health of the trust fund."
>
> --Testimony before the Senate Finance Committee, February 24, 1993

The Administration displayed a strong commitment to increasing the solvency of the Trust Fund.

> "In addition to our savings proposals, we are also submitting revenue proposals to *increase the Hospital Insurance Trust Fund by $55.8 billion. . .*"
>
> -- Department of Health and Human Services, Press Release, "The Fiscal Year 1994 Budget"

The 1993 report by the trustees of the Medicare trust fund called upon Congress to strengthen the trust fund by enacting comprehensive health care reform:

> "With the magnitude of the projected actuarial deficit in the HI program and the high probability that the HI Trust Fund will be exhausted before the turn of the century, *the Trustees urge the Congress to take additional actions designed to control HI program costs through specific program legislation and as a part of enacting comprehensive health care reform.*"
>
> --1993 Annual Report of the Trustees of the Federal Hospital Insurance Trust Fund, April 7, 1993

The President's 1993 Economic Plan strengthened the Medicare trust fund and extended its solvency for another three years:

> "As part of OBRA '93, Congress took certain actions to increase revenue and reduce HI program expenditures to improve the financial status of this trust fund. While the status of the HI Trust Fund has improved since last year's report, it still does not meet the short-range test of financial adequacy."
>
> -- Medicare Trustees' Letter to Speaker Foley, April 11, 1994

The three extra years of solvency were derived from:

1. Constraining the growth of Medicare, primarily through specific provider cuts.
2. Repealing the maximum earnings cap for the Medicare HI payroll tax.
3. Increasing the percentage of Social Security benefits of well-off seniors subject to taxation and dedicating that revenue to the HI Trust Fund.
4. Economic growth partly due to the President's deficit reduction plan.

No Republicans voted for this strengthening of the trust fund.

II. 1994: Health Care Reform Plan

President Clinton's 1994 health care reform plan would have delayed insolvency another five years past the current date of 2002. In addition, President Clinton's plan would have addressed the trust fund's solvency in the context of overall health care reform.

> "President Clinton's health reform plan provides universal coverage; it improves and protects the Medicare program; and it achieves real cost containment that will help *ensure the solvency of the Medicare Trust Fund.*"
>
> -- Letter to Editor from Bruce Vladek, President Clinton's Administrator of the Medicare program, Los Angeles *Times*, June 9, 1994

"Lowering the rate of growth in Medicare spending is perhaps the most important thing we can do for beneficiaries. Lower expenditures mean that beneficiaries pay less out-of-pocket in the form of coinsurance and deductibles. It also means that future beneficiaries can look forward to a stronger, more financially sound Medicare program because reducing costs in both the Medicare program and the private sector will *serve to improve the long-term integrity of the Medicare trust funds*."

-- Bruce Vladek, President Clinton's Administrator of the Medicare program, in testimony before the House Ways and Means Committee, February 2, 1994

"Medicare's financial condition would improve significantly as a result of general cost containment under the President's health-care-reform proposal."

-- Secretary Donna Shalala, Los Angeles *Times*, April 12, 1994

The 1994 report by the trustees of the Medicare trust fund once again called upon Congress to strengthen the trust fund by enacting comprehensive health care reform:

"Raising what is becoming a *perennial alarm,* the federal government said yesterday that Medicare program that pays hospital costs for the elderly and disabled will run out of money around the turn of the century, and *officials urged Congress to control costs, in part through health care reform.*"

-- "Medicare Funding Remains a Concern," The Baltimore *Sun,* April 12, 1994

III. 1995: Balanced Budget Proposal

The President's balanced budget plan would extend the life of the trust fund through 2006. With the trust fund secure for better than 10 years from now, there would be ample opportunity for a bipartisan approach to address the long-term solvency issues of the Medicare trust fund.

Ironically, the only specific component of the *Contract with America* that addressed the trust fund made it worse. The Contract called for repeal of the increase in the Social Security benefits tax for high-income seniors--a provision that helped improve the financial status of the trust fund. If this provision is enacted, the trust fund will go insolvent 8 months sooner.

The Medicare trust fund's solvency issues are not new. The only thing new is that Republicans have developed a plan to arbitrarily balance the budget in 7 years and cut taxes deeply for those who need it the least. On 9 separate occasions, the trust fund has been projected to be insolvent in 7 years or less. Yet Speaker Gingrich *never* expressed concern about the trust fund until this year when he was developing his plan to balance the budget -- even when the trust fund was in *greater* danger than it is now. In fact, in 1994 when President Clinton proposed to strengthen Medicare within the context of health care reform, Republicans responded by accusing the President of trying to scare seniors.

Republicans have refused to explain their inconsistency on this issue:

> "Dole and Gingrich insisted yesterday that Medicare was in crisis, holding aloft a recent report by the Medicare trustees that the portion of Medicare that pays for hospital expenses will run out of money in 2002. *But they abruptly walked out of the news conference after increasingly skeptical reporters pointed out that the trustees' report this year was more positive than last year.* The House Republican tax-cut bill also worsens the solvency of the Medicare trust fund by repealing a tax Clinton passed in 1993 to shore it up."
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> -- *Newsday*, May 3, 1995