MEDICARE TRUST FUND TALKING POINTS
June 7, 1996

THE MEDICARE TRUSTEES' REPORT CONFIRMED WHAT WE ALREADY KNEW -- REPUBLICANS SHOULD ACCEPT PRESIDENT CLINTON'S CALL TO BALANCE THE BUDGET AND STRENGTHEN THE MEDICARE TRUST FUND.

- As CBO said in its April 30th Hill testimony, "*.... the projected date of insolvency should be viewed not as telling us something new, but confirming what we already know.*"

WE WELCOME REPUBLICANS' CONCERN ABOUT THE TRUST FUND, BUT LONG BEFORE THEY STARTED TALKING ABOUT THE PROBLEM, THE PRESIDENT WAS ACTING TO ADDRESS IT.

- The President's 1993 Economic Plan extended the life of the Trust Fund by *3 years -- without a single Republican vote.*

- The President's Health Care Reform Plan would have extended the life of the Trust Fund by *another 5 years.*

THE PRESIDENT'S BALANCED BUDGET GUARANTEES THE LIFE OF THE TRUST FUND FOR A DECADE -- THE SAME AS THE SENATE REPUBLICAN BUDGET

- In a June 4th letter, the Medicare trust fund's Chief Actuary confirmed that the life of the trust fund would be extended until "mid-calendar year 2006 under the Administration's proposal."

ACTION IS NEEDED -- BUT THE ONLY CAUSE FOR ALARM IS THE REPUBLICANS' REFUSAL TO MEET WITH THE PRESIDENT ON BUDGET AND MEDICARE ISSUES.

- **The need for responsible intervention to improve the Trust Fund is real.** The President's plan addresses this need in a responsible way, without imposing devastating provider cuts, increasing beneficiary costs, or enacting structural changes that hurt the program and the people it serves.

- **Over $125 billion remains in the Trust Fund.** While incoming revenues are somewhat less than outgoing payments, the current balance in the Trust Fund means that there is absolutely no danger that claims will not be paid.

- **Reports should not be used irresponsibly.** The upcoming Trust Fund report should not be used to recklessly frighten the 37 million Medicare beneficiaries and their families into thinking that their benefits are in imminent danger. They simply are not.

IT IS TIME TO PUT PARTISAN DIFFERENCES ASIDE AND AGREE ON THE COMMON MEDICARE SAVINGS BOTH REPUBLICAN AND DEMOCRATIC PROPOSALS HAVE.

- We have tens of billions of dollars in common Medicare savings that we could agree on tomorrow to strengthen the Trust Fund. All the Republicans need do is set aside their structural changes that would segment the wealthy and healthy from other beneficiaries and cause Medicare to *"wither on the vine."* (E.G., the Republican Medical Savings Account would actually weaken the Medicare Trust Fund, as it would cost $4 billion.)

MEMORANDUM October 6, 1999

FROM: Richard S. Foster
Office of the Actuary
Health Care Financing Administration

SUBJECT: Corrected Estimate of HI Year of Exhaustion under the President's Plan To Modernize and Strengthen Medicare for the 21st Century

The estimated financial impact of the President's Medicare reform proposals was presented in my memorandum of August 9, 1999. On page 5 of that memorandum, the estimated year of exhaustion for the Hospital Insurance (HI) trust fund was shown as 2027 under the President's package. We have since discovered that we made a technical error in this estimate; the correct year of exhaustion is 2030.

Accordingly, the President's Medicare reform proposals are estimated to postpone the year of exhaustion by 15 years relative to the estimated depletion date of 2015 under present law, based on the intermediate set of assumptions from the 1999 Trustees Reports. As noted in my August 9 memorandum, the estimated year of exhaustion is very sensitive to relatively minor changes in economic or programmatic trends and the actual year of exhaustion under the proposed reform package could be significantly different.

Richard S. Foster

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

FOR RELEASE UPON DELIVERY
TUESDAY, MARCH 30, 1999

REMARKS BY

DONNA E. SHALALA

U.S. SECRETARY OF HEALTH AND HUMAN SERVICES

PRESS CONFERENCE TO RELEASE

1999 ANNUAL REPORT

SOCIAL SECURITY AND MEDICARE BOARDS OF TRUSTEES

WASHINGTON, D.C.

*THIS TEXT IS THE BASIS OF SECRETARY SHALALA'S ORAL REMARKS. IT SHOULD BE USED WITH THE UNDERSTANDING THAT SOME MATERIAL MAY BE ADDED OR OMITTED DURING PRESENTATION.

Good afternoon. Thank you Secretary Rubin.

In this Easter and Passover season, it's worth remembering that Medicare brings freedom from fear – and hope for renewal – to every member of our national family. That's why I'm pleased that for the second year in a row, we have very reassuring news.

Last year, we announced that the Medicare reform package that was part of the Balanced Budget Act extended both the short term and long term outlook for Medicare. The solvency of the Trust Fund was pushed back 7 years to 2008, and the Medicare actuarial deficit – in other words, where we will be 75 years down the road – was cut in half.

This year we are announcing that the solvency of the Trust Fund has been pushed back another 7 years. The Medicare Trust Fund is now solvent to 2015. And the Medicare actuarial deficit – where we will be 75 years from now – has been cut an additional one-third.

The groundbreaking achievements I noted last year – combined with the dramatic performance of the economy – brought us to where we are today. It's a place few people would have predicted just two short years ago.

In the last two years, we extended the life of the Trust Fund by a full 14 years – and cut the actuarial deficit by 66-percent. This means we have more time to work together. More time to plan. More time to build on the amazing progress we've already made.

We got here not by luck or guesswork. It took hard work, courage and skill. What are the reasons for our success?

Number one: We stopped the river of red ink and balanced the budget for the first time in 30 years – ending the deficit and strengthening a robust economy.

Number two: We passed – and began implementing – the bipartisan Balanced Budget Act, which reformed the way Medicare payments are made.

Number three: We cracked down big time on waste, fraud and abuse – and in just the last two years returned over 1.2 billion dollars to the Trust Fund. This is the first time in the history of Medicare that an Administration's effort to end waste, fraud and abuse has been identified as having a positive impact on the Trust Fund. The leadership and hard work of the Department's Inspector General, the Health Care Financing Administration and the Department of Justice have been outstanding.

Number four: We modernized the benefit package by adding important prevention services – including flu shots, mammograms and prostate cancer screening.

And maybe most important: We vigorously managed Medicare. I'm talking about management that is hands on; holds people accountable; introduces new systems; and responds to changing conditions. This Administration has had the toughest management team in the history of Medicare.

We still have a lot of work ahead of us. But today's Trustee report is a roadmap for getting us where we need to go.

As the President said in his State of the Union Address, Congress must set aside 15 percent of the surplus for Medicare. Setting aside 15 percent of the surplus would extend the life of the Trust Fund another 12 years, to 2027. We are heading for doubling our 65-and-over population by 2030 – from 39 million to 78 million beneficiaries. That means we need both new revenues and new reforms.

Program reforms are very important. But we have principles that shape our modernization strategy. We must keep our compact with the American people.

We will not approve a plan that leaves people sicker or poorer.

We will not shift significant costs to beneficiaries – or put them at undue risk for future costs.

We will continue to add competitive reforms.

In addition, with seniors living longer – and often in the grip of chronic diseases – we must continue to modernize the benefit package to improve the quality of health care, and offer some relief from the burdensome cost of prescription drugs. Health care is changing. Because of scientific breakthroughs, we are now substituting drugs for hospital stays, operations and other procedures. Drugs are an integral part of a modern American health care system – and must be part of a modern Medicare benefit package.

Finally our reform plan must be clear, understandable – and have the broad support of the American people.

I already noted that today's great news means we have a little more breathing space. But even though we have more time – we don't have a minute to waste. We must keep working for a consensus on how to protect and modernize Medicare. We must keep the promise we made 33 years ago to America's senior citizens. And we must keep faith with our children and their children – that Medicare will be strong, solvent and affordable for them in the future.

That may seem like a lot to ask for. A lot to work for. Even a lot to hope for. But by preserving Medicare for our national family – we are acting in the best tradition of every family – we are taking care of our own. Thank you.

Did you give

Doug Memo

to Gary?

Mark McC

MEDICARE TRUSTEES' REPORT: 1999

March 30, 1999

*Today, the Medicare Trustees projected that the life of the Medicare Trust Fund has been extended until **2015** -- 7 years longer than projected in last year's report. This report affirms that the President's commitment to strengthening and improving Medicare is paying dividends, but it also underscores the need for additional action to strengthen and improve the program.*

- **The Trustees' Report on the Improved Financial Status of Medicare is Good News and Reflects that the Hard Choices the President Made in 1993 and 1997 Strengthened the Program and Were Justified.** <u>When the President came into office, the Medicare program was projected by the Trustees to go bankrupt by 1999</u>. The Trustees' Report validates the President's economic policies. It reports that: "income exceeded expectations as a result of robust economic growth and expenditures declined due to implementation of the Balanced Budget Act of 1997, low increases in health care costs generally, and continuing efforts to combat fraud and abuse." In the last few years, the life of the Trust Fund has been extended by a full 14 years and the actuarial deficit has been cut by two-thirds.

- **Good News Does Not Delay the Need for Decisive Action.** We are proud of our stewardship of the Medicare program. However, our success does not in any way diminish the challenges facing Medicare. Under any scenario, enrollment in Medicare will climb from 39 million to 47 million in 2010, and to 80 million by 2035. As the Trustees' Report points out, "substantially greater changes in income and/or outlays are needed, in large part as a result of the impending retirement of the baby boom generation."

- **The President's Proposal to Modernize Medicare and to Dedicate 15 Percent of the Surplus to the Program is Clearly Necessary to Adequately Extend the Life of the Trust Fund and Add a Long Overdue Prescription Drug Benefit.** While the financial well-being of the Medicare program has improved, its reserves will become exhausted just as the baby boom population begins to retire and long before those of the Social Security program. Moreover, 15 million beneficiaries have absolutely no prescription drug coverage, millions more have totally inadequate coverage, and our nation's elderly are paying excessively high costs for their desperately needed medications. The President's Medicare reform proposal will address these unmet challenges.

- **We Now Face A Historic Fiscal Choice: Do we use the surplus to strengthen and modernize Medicare and keep the program solvent further into the future <u>OR</u> do we use it to provide for an exploding and irresponsible tax cut.** If we choose unwisely and use the surplus to finance tax cuts -- rather than Social Security and Medicare -- we will have made one of the most short-sighted fiscal decisions in our nation's history. Not only will we leave two programs unacceptably weakened, but we will have given up on an unprecedented opportunity to reduce our nation's debt from 44 percent of GDP to 7 percent by 2014 -- the lowest level since 1917. We must use this historic opportunity to strengthen Medicare by devoting 15 percent of the budget surplus to this program over the next 15 years and modernizing Medicare to help fund a prescription drug benefit.

PRESIDENT CLINTON UNVEILS PRINCIPLES FOR STRENGTHENING AND IMPROVING MEDICARE AND UNDERSCORES NEED TO DEDICATE THE SURPLUS TO MEDICARE

February 3, 1999

Today, in his speech to the American Association of Retired Persons (AARP), President Clinton underscored the need to dedicate 15 percent of the budget surplus to secure the Medicare Trust Fund until 2020. He stressed his preference for bipartisan Medicare reform that is necessary to modernize Medicare and achieve additional savings to strengthen the program, and outlined four main principles that he believes any such plan should meet. The President:

- **Highlighted the Need to Dedicate Budget Surplus to Strengthen Medicare.** The President highlighted the fact that, while we need improve Medicare's competition and efficiency, these changes will not produce savings that are sufficient to significantly extend the life of the Trust Fund. In fact, if reductions in growth alone were used to extend the life of the Medicare Trust Fund, spending growth per beneficiary would have to be limited to 2.8 percent per year -- in every year -- to get to 2020. This rate is over 60 percent below projected private health insurance spending per person (7.3 percent). Moreover, since this growth rate is below general inflation, the value of Medicare spending per beneficiary would erode. These projections help explain why virtually every independent health analyst agrees that Medicare cannot be significantly strengthened without adding outside financial support such as the surplus.

- **Unveiled Principles to Guide Medicare Improvements.** The President outlined principles that he will use to evaluate any Medicare proposal. Any broad-based package should:

  - **Dedicate Surplus to Secure Medicare until 2020.** One of the fundamental goals of Medicare legislation is to put the program on stronger financial footing to better prepare it for the demographic and health challenges of the next century. These challenges cannot be addressed solely through making the program more efficient, transferring current liabilities out of the Trust Fund, or increasing payments. The President is proposing to use 15 percent of the projected surpluses over the next 15 years to secure the Medicare Trust Fund until 2020 as part of broader reforms to further strengthen the program.

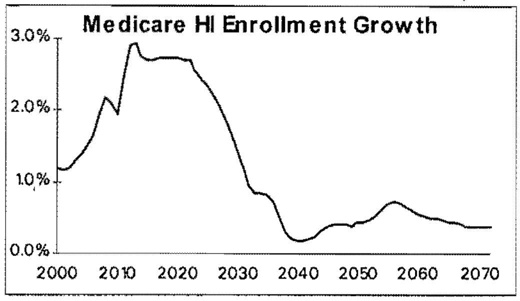
  - **Modernize Medicare and Make It More Competitive.** Medicare should adopt the best management, payment, clinical and competitive practices used by the private sector, to help maintain high-quality services and keep spending growth in line with the private spending. Strong and effective Federal administration of Medicare should be assured.

  - **Guarantee Defined Set of Benefits Without Excessive New Costs to Beneficiaries.** Beneficiaries should still be entitled to an adequate set of health benefits. A modernized, well-defined benefits package is needed to assure that health plans compete on cost and quality rather than price. Proposals should also maintain or strengthen protections for low-income beneficiaries, assure that any new cost burdens are not excessive, and assure that beneficiaries have access to a viable traditional Medicare program.

- **Use Savings from Proposals to Help Fund a Prescription Drug Benefit.** Millions of Medicare beneficiaries have no or inadequate coverage for their medications, limiting their access to needed treatments. In fact, over half of Medicare beneficiaries pay more than $500 per month for prescription drugs and one in ten pay more than $2,000. Prescription drugs have become an essential part of treatments and cures, and are expected to play an even greater role in health care in the next century. The President believes that additional savings from making Medicare more efficient should be used to help finance a long-overdue prescription drug benefit for all Medicare beneficiaries.

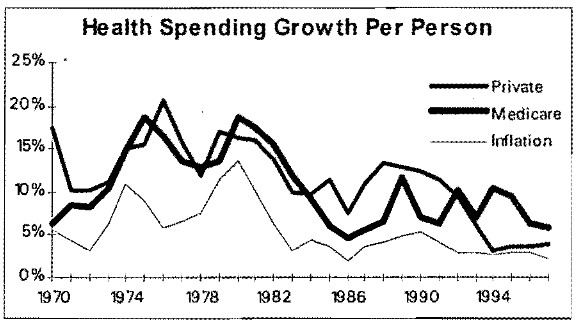
DRAFT: BACKGROUND: STRENGTHENING THE MEDICARE TRUST FUND
February 17, 1998

CHALLENGES FACING MEDICARE



- **Impending "senior boom".** Like Social Security, Medicare enrollment will double between 1999 (39 million) and 2032 (78 million) as the baby boom generation retires. Not only will there be more elderly in the future, but the elderly will live up to 6 years longer on average by the middle of the next century.

- **Additional challenges of changing health and medicine.** Compounding the demographic challenges are the unique factors that influence health spending -- changing disease patterns, technological advances, and a high value placed on health. As a result, spending growth in health care has almost always exceeded that of general inflation.



In the last 35 years, neither private health nor Medicare spending growth per person has been below general inflation. Recent low growth, in part due to unique trends such as the shift to managed care, is expected to end. Private health spending growth per person is projected to be 7.3 percent between 1999 and 2007 -- more than twice as high as general inflation.

- **Outdated benefits package.** Medicare benefits were designed in 1965 to be similar to those offered by the private sector. Since then, however, Medicare benefits not changed, so that Medicare is now less generous than 80 percent of large employer's health plans.

- **Improved but still large Trust Fund problem.** In 1993 when President Clinton took office, the Medicare Hospital Insurance (HI) Trust Fund was projected to be exhausted in 1999. Today, it is projected to be solvent through 2008, in large part because of the historic changes in the Balanced Budget Act of 1997. Medicare contributed a major share of the savings that went to balancing the budget and leading to the surplus that we have today.

  - If Medicare growth in 1999 remains low, Medicare will have had four consecutive years of single-digit spending growth for the first time in history.

  - Medicare spending growth per beneficiary (HI and supplemental medical insurance, Parts A and B) is projected to grow at 5.8 percent between 2000 and 2020. This compares to an average per beneficiary growth rate of 10.8 percent between 1970 and 1996.

  Despite this improvement, the Medicare Trustees' report currently projects the Trust Fund to become insolvent in 2008, just as the baby boom generation begins to retire.

ACTIONS NEEDED WITHOUT NEW REVENUE

- **Unsustainable, low growth rates.** Competition, efficiency and traditional savings alone cannot secure Medicare. If reductions in growth alone were used to extend the life of the Medicare Trust Fund, spending growth per beneficiary would have to be constrained to 2.8 percent per year -- in every year -- to get to 2020. To put this rate into perspective:

  - Medicare growth would have to be over 60 percent below projected private health insurance spending per person (7.3 percent).

  - By 2020, a growth rate of 2.8 percent per beneficiary would result in Medicare spending that is over 40 percent below what is projected to be under current law.

  - Since this growth rate is below inflation according to the Trustees, the value of Medicare spending per beneficiary would erode. By 2020, Medicare's spending would be 10 percent below today's level.

- **Removing critical services.** To give a sense of the size of the problem, even removing the following services from Medicare Trust Fund financing alone would not be sufficient to extend the life of the Trust Fund through 2020:
  - All skilled nursing facility plus hospice spending, or
  - Part A home health spending, or
  - All graduate medical education and disproportionate share hospital spending.

NEW REVENUE OPTIONS

- **Dedicating 15 percent of the surplus to Medicare.** The President has proposed to dedicate an amount equal to 15 percent of the surplus over the next 15 years to Medicare. This amount is $689 billion over 15 years, $120 billion between 2000 and 2004 alone. This will have the effect of extending the life of the Trust Fund until 2020 with no other changes.

  The surplus is probably the most fair and appropriate source of new revenue for Medicare. It was created largely by the people who will soon become Medicare beneficiaries -- the baby boom generation and those nearing retirement -- whose contributions to the economy have increased revenues.

- **Alternatives would hurt lower wage workers and vulnerable beneficiaries.** The two major alternative sources of new revenue are an increase in the payroll tax and a new beneficiary premium targeted for the Medicare Trust Fund. To get to 2020:

  - **Nearly a 20 percent increase in the payroll tax** for both employees and employers would be needed (from 2.9 to 3.4 percent combined).

  - **A 75 percent increase in beneficiary premiums.** A $37 per month on top of the current premium would be needed to equal the amount transferred from the surplus in 2000 under the President's proposal. This would be about $890 a year for an elderly couple.

House Republicans Vouched For The Credibility Of Medicare Trustees In 1995

Rep. Bill Archer (R-TX), Chairman of the House Ways and Means Committee:

- *"...[W]e want to save Medicare. You know,* ***the trustees*** *have said Medicare's going broke in the year 2002."* [Interview on CBS This Morning, 10/13/95 (emphasis added)]

Rep. John Kasich (R-OH), Chairman of the House Budget Committee:

- *"What we're doing with Medicare is saving Medicare. Medicare is growing at an unsustainable rate for everybody, and it needs to be put on a track that is going to provide high quality, high customer satisfaction, be able to keep this thing sustainable. And these charges -- they don't want to put -- I mean, how irresponsible is it for the president to send the budget up here to have* ***his people...on the Medicare Actuary Board*** *and to say the thing's going bankrupt and to send us a budget that -- that -- it -- it's just unbelievable -- that punts."* [New Conference in House Radio/TV Gallery, Federal News Service, 5/5/95, emphasis added]

Rep. Bill Thomas (R-CA), Chairman of the House Ways and Means Subcommittee on Medicare:

- *"This [trustees] report confirms that the nation's health plan for seniors will soon be on life support."* [Washington Post, 4/4/95]

Rep. Tom Bliley (R-VA), Chairman of the House Commerce Committee:

- *"Last April, the* ***Trustees*** *diagnosed Medicare, and issued a 'Code Blue.' The condition of both Medicare Trust Funds, they said, is critical.... While some in this House dismissed* ***the Trustees' report****, they were the same ones who ignored similar 'caution lights' in the past -- racing headlong toward an inevitable red light. Fortunately, the new Majority Leadership of this Congress did otherwise, and paid heed."* [Congressional Testimony of Thomas J. Bliley, Jr., Chairman House Commerce Full Committee, Federal Document Clearing House, 10/2/95 (emphasis added)]

Rep. Dick Armey (R-TX), House Majority Leader:

- *"The Democrats are singing Happy Birthday to Medicare today, but only Republicans are singing 'And many More.' The same party that helped bring this important program into the world is now sitting on its hands as it goes bankrupt. 'Next year, the Medicare trust fund will pay out more than it takes in for the first time in the program's history. It is the first step to bankruptcy in the year 2002, as* ***the Medicare Trustees' Report****, signed by three Clinton cabinet secretaries, warns."* [Statement by Maj. Leader Armey on Medicare Celebration, Congressional Press Releases, 7/25/95]

Former Rep. Newt Gingrich (R-GA), Former House Speaker:

- *"And again, this is not magic, I mean any of you can get a copy of* ***the trustees' report. The trustees*** *are very clear: Medicare is going to go broke. I mean, Bob can talk about the fantasy numbers of what people wish they could spend if they could meet* ***the trustees' report*** *and somehow not go broke, but the fact is it's going to go broke. Now, unfortunately, some people in this town don't seem to have the courage to deal with it, and they have decided they'll just hide. But we're going to go to the American people and say, here's what* ***the trustees' report*** *says, here are the facts, we can provide for a growing Medicare program, we can maintain an increase in the spending for Medicare, and we can do it without going broke."* [News Conference in House Radio/TV Gallery, Federal News Service, 5/5/95 (emphasis added)]

- *"Second, **the Medicare Trust Fund report** came out two weeks ago, and I hope all of you are doing editorials on this. **The Medicare trustees** reported flatly that Medicare will go broke by 2002; the trust fund will run out of money. Now, we have an obligation to protect Medicare, to improve Medicare, and to preserve Medicare by rethinking it to apply the lessons of the private sector and the lessons of technological change. But that has to be done in the next couple of years if Medicare is going to survive."* [Remarks by House Speaker Newt Gingrich (R-GA) to the Newspaper Publishers' Association Meeting, Federal News Service, 4/26/95 (emphasis added)]

- *"I am releasing this afternoon a letter we're sending the president today, because I think the combination of **the trustees' report**, which is so clear, and the upcoming White House conference on aging makes this the appropriate time to raise the following, and this is the letter I'm releasing: 'Dear Mr. President, I write to you out of deep concern for the future of Medicare. The most recent reports of **the Medicare hospital insurance and supplementary medical insurance trustees** paint a grim picture of the future of Medicare and make clear that immediate action is needed to ensure Medicare's survival. **The trustees' reports** predict dire results from a failure to address the growth rate in both parts of the Medicare program. Four of **the trustees** are your own secretaries of the Treasury, Labor and Health & Human Services departments, and the commissioner of Social Security.'"* [House Speaker Newt Gingrich (R-GA) to the Seniors Coalition, Federal News Service, 4/28/95 (emphasis added)]

- *"Now, I want to mention several things we're doing today. And I really appreciate the timing of this, because frankly we're going to be sending the request down to the White House conference on aging to ask their advice on what we think is the number one challenge facing senior citizens in the near future, and that challenge was highlighted by **the report on the Medicare trust fund by the trustees**, a number of whom are, in fact, members of the Clinton administration. And I think that **the trustees' report** is sufficiently clear that it's worth just a minute to look at it."* [House Speaker Newt Gingrich (R-GA) to the Seniors Coalition, Federal News Service, 4/28/95 (emphasis added)]

Senate Republicans Vouched For The Credibility Of Medicare Trustees In 1995

Senate Majority Leader Trent Lott (R-MS):

- *"The problem that Clinton's own administration acknowledges that we must deal with. If we don't deal with it in a sensible way by the year 2002, we will have bankruptcy."* [Capital Gang, 7/29/95]

Senator Pete Domenici (R-NM), Chairman of the Senate Budget Committee:

- *"We very much want to produce a budget resolution that helps this country move in the right direction. We think it's imperative that we do so. And the issue of Medicare comes before us because there is no way to avoid the fact that* ***the trustees*** *have told us that Medicare Part A is slowly going bankrupt, and that by nine hundred and -- by 2002, we won't be able to pay our bills. I think they have said, annually we are paying out more than we're taking in, which I think cries out for a reform."* [Senate Budget Committee Hearing, FDCH Political Transcripts, 5/4/95 (emphasis added)]

Senator Bill Frist (R-TN):

- *"Mr. President, I rise to discuss the approaching insolvency of our Medicare program. The Clinton Administration has confirmed that Medicare is going bankrupt. We must act now to save it. We must reform Medicare to protect it, to preserve it and to improve it. Next year, for the first time in its thirty-year history, the program will begin deficit spending. And on April 3rd* ***the Medicare Board of Trustees*** *announced that Medicare will go bankrupt by the year 2002. In 7 years -- well before I will be eligible for benefits -- the program will have exhausted all of its resources and will cease to exist in its current form."* [Congressional Press Releases, Federal Document Clearing House, 4/26/95 (emphasis added)]

Senator Judd Gregg (R-NH):

- *"Now, at the end of seven years, Madam Secretary (HHS Secretary Shalala), this trust goes insolvent. According to the terms of* ***your report*** *-- and I'll read it to you because -- I'm sure you're familiar with it, but I'll read it just for the purpose of the record. 'The HI Trust Fund will be able to pay benefits for only about seven years. At the end of seven years' -- and I'll show you a chart which reflects what happens to the trust fund, prepared from the numbers on your trust fund. You'll see that this line, which is the reserve line, you cross into insolvency in the trust fund in the year 2002."* [Senate Budget Committee Hearing, FDCH Political Transcripts, 5/4/95 (emphasis added)]

Former CBO Director June O'Neill
Vouched For The Credibility Of Medicare Trustees In 1995

...Unfortunately, the financial liability of Medicare is currently eroding, primarily due to continuing growth in the cost of providing Medicare coverage to each beneficiary. If left unchecked, this trend will create a problem of major proportions when the Baby Boom Generation begins to reach retirement in the year 2010. As you know, ***the report of the board of trustees of the Federal Hospital Insurance Trust Fund*** *released last month indicates that under intermediate assumptions, the HI Trust Fund will be depleted in the year 2002 unless changes in policy are made. Even under* ***the trustees'*** *most optimistic assumptions, the HI Trust Fund will be exhausted by the year 2006, which is 11 years from now. <u>We find ample reason to agree with the broad conclusions of* ***the trustees***</u> *regarding the short-range adequacy of HI funding, but these projections of HI insolvency only -- address only part of Medicare's overall financial outlook. The Supplementary Medical Insurance program, SMI, which pays for physician and outpatient services for Medicare beneficiaries is also experiencing extremely rapid growth in costs.*

Source: Senate Budget Committee Hearing, FDCH Political Transcripts, 5/4/95 (emphasis added)

M E M O R A N D U M

TO: Erskine Bowles November 27, 1996

FR: Chris J.

RE: Health Care in the 105th Congress

Medicare, Medicaid, and incremental health reforms -- within the context of a balanced budget -- will be the primary focus of the health care debate in the 105th Congress. In particular, discussions about how best to strengthen the Medicare Hospital Insurance (Part A) Trust Fund will dominate the attention of the media and the Congress. Additionally, concerns about how success in constraining health care costs, largely through managed care, is affecting quality will continue to attract interest as well as legislative and executive branch action. The following provides an overview of these issues.

I. MEDICARE

The Medicare debate will largely be driven by the impending insolvency of the Medicare Part A Trust Fund in 2001. During the budget and campaign debates last year, both the President and the Republicans suggested they could extend the life of the Trust Fund to 2006. In order to reach this goal, it is necessary to achieve significant savings in Part A of the program. This can be achieved by: (1) instituting traditional Part A provider cuts (e.g., decreasing spending for hospitals, home health care, and nursing homes), (2) reducing program liabilities in Part A by transferring a portion of them to the Part B side of the program, and/or (3) dedicating savings from new Part B reforms (such as new beneficiary premiums) back to the Part A Trust Fund.

To address the long-term financing challenges facing the Medicare Trust Fund after the "baby boomers" start retiring in 2010, the President has indicated a willingness to consider the establishment of a bipartisan process or commission to review options. This is consistent with the recommendations of the Medicare Trustees (Secretaries Rubin, Reich, and Shalala). Our public position on this issue is that the President is favorably disposed to this type of approach as long as it does not detract from our efforts to address the Trust Fund's more immediate financing challenges.

A. The President's and Republicans' Medicare Plans

Notable differences exist between the President's and Republicans' last Medicare proposals. First, the CBO estimated that our proposal would have realized $116 billion in Medicare savings over six years compared to $168 billion in the Republicans' proposal.

Second, while both plans would have extended the life of the Trust Fund for ten years from today (from 2001 to 2006), the President's proposal included less harsh cuts than the Republicans' plan that could have threatened the financial viability of vulnerable rural, inner city, and teaching hospitals. We avoided excessive Part A cuts by proposing a transfer of home health care expenditures from Medicare Part A to Part B. Some Republicans maintained that the transfer was merely a "gimmick" that helped the Medicare Trust Fund solely by reallocating liability to the Part B side of the program. We responded by pointing out that this transfer simply reinstated pre-1980 law and noted that virtually every House Republican voted for a similar transfer in 1995 (before they eventually dropped it in conference).

Third, the Republicans continued to advocate for structural reforms that we truly believed could lead to Medicare "withering in the vine." These included an arbitrary fall-back budget cap, Medicare Medical Savings Accounts, and the removal of current law protections against overcharges by physicians for certain plans. We feared that these proposals would have the effect of segmenting the healthy and wealthy from the sick.

Having said this, there is more common ground between the Administration and Republicans than many people realize. Both the Administration and Republican plans included market-oriented structural changes, such as new health plan options which are modeled on private sector innovations. Both sides have indicated a great interest in expanding preventive benefits. And finally, although the savings and structural differences are non-trivial, they are close enough to easily envision a compromise that would be acceptable to both sides.

B. Changes Since This Year's Proposals Were Unveiled

As a result of losing a year of savings, the President's proposal would now produce about $90 billion in (CBO) savings over the likely 5-year (1998-2002) "get to balance" budget window. The delay in implementing these cuts shaves a year off the projected exhaustion date of the Medicare Trust Fund (from 2006 to 2005). (The comparable 5-year CBO scoring of the Republican $168 billion Medicare package would probably be about $115-120 billion.)

This year's failure to reach a budget agreement also contributed to the continued overcompensation of many providers. Further delay will exacerbate this problem and make more painful savings over a shorter period of time necessary to adequately deal with the short-term problem.

It is also clear that the Republicans have no intention in seriously engaging with us in a Medicare dialogue prior the unveiling of the President's FY98 budget proposal. They believe this is a win/win strategy. If we put down the level of savings they think is now necessary to strengthen the Trust Fund, they believe it will validate their past policy. If we do not, they can take the opportunity to, once again, criticize us for being "irresponsible demagogues." Most importantly, the Republicans want to do everything possible to avoid giving us too much cover for our initial unveiling.

C. Medicare and Our FY98 Budget

The President's desire to extend the life of the Medicare Trust Fund and to balance the budget will require significant savings in Medicare. However, the need for these savings will be counterbalanced with limitations in viable policy options and the likely desire to avoid savings that are equal to or greater than the 5-year $115-120 billion Medicare Republican cut.
As a result, it probably would not be surprising if the President elects a five-year Medicare savings number that falls between the Administration's $90 billion and the Republicans' $115-120 billion numbers. The benefit of increasing the cuts above our current policy is that it would likely push back the insolvency date of the Medicare program to 2006 or 2007.

How to allocate any additional savings and whether beneficiaries should make any contributions are outstanding questions that must be addressed. There may be an internal hesitancy to "hit" beneficiaries because the President is perceived to have "won" the Medicare debate on behalf of beneficiaries. However, it is clear that a new Medicare proposal without beneficiary contributions is likely to be poorly received by Republicans, "Blue-Dog" Democrats, and the media. Targeting high-income beneficiaries may be feasible this year, but discussions around this and other beneficiary proposals need to be done strategically.

II. MEDICAID

A very different picture has emerged with Medicaid. The program is now growing at a startling low per person rate of about 2 percent -- far below the private health insurance growth rate. The projected reductions in current and future growth have been one of the most major contributors to deficit reduction. Reasons that help explain this development include: (1) state utilization of managed care at unprecedented rates, (2) the improved economy and lowered inflation rates, and (3) states no longer relying on questionable financing schemes that "raid" the Federal Treasury.

A. The President's and Republicans' Medicaid Plans

For their election year budget, the Republicans lowered their 6-year Medicaid cuts from $162 billion to $72 billion. This was much closer to the $54 billion in savings the President proposed. But the debate around Medicaid was really never won or lost on the savings number; the President won the debate on Medicaid by opposing the Republicans' attempt to block grant the program.

Like the Republican plan, the President desired to give the states much greater flexibility in administering their programs, but he felt that a block grant was a short-sighted idea that would hurt Medicaid recipients and the states. Instead, he advocated that a flexibility package be based on longstanding recommendations by the bipartisan Governors' Association combined with what is known as a per capita cap. The per capita cap would limit spending on a per person basis. In so doing, it would achieve savings, but would not give states the incentive to reduce the number of people they cover. He also advocated for capturing savings from "disproportionate share" payments given to the states to help compensate providers who disproportionately serve low income recipients. (This program has been gamed by the states.)

B. Changes Since This Year's Proposals Were Unveiled

As a result of the changes in the Medicaid program, CBO and OMB have lowered predicted spending by tens of billions of dollars. Additional changes in the December baselines are expected. These changes mean that a significant portion of the $54 billion in CBO-scored Medicaid savings we proposed this year will be achieved simply through baseline changes.

Because Medicaid has already "contributed its fair share," our base Democrats are strongly urging us to drop any proposals to achieve significant Medicaid savings. They are particularly concerned about us offering any proposal to achieve Medicaid savings through the use of our per capita cap. (They are worried that it could lead to another painful block grant debate or could be used to further squeeze Federal support for Medicaid to unrealistic levels.) The Democratic Governors share these concerns. HHS strongly agrees with this position and, in fact, is advocating for a budget neutral Medicaid reform package.

Having said this, conservative Democrats, Republicans and OMB are likely to conclude that some additional savings will be necessary to balance the budget. This will be achieved through cuts in disproportionate share (DSH) payments and, perhaps, through the reinstatement of a per capita cap. Many within the Administration will argue that, even if we do not achieve much additional savings through the use of a per capita cap, its use would provide for needed fiscal discipline in the program.

C. Medicaid and Our FY98 Budget

The decision about how much to save from Medicaid will be made in the context of the internal budget debate. To achieve balance in 2002 and to ease up on discretionary spending caps, additional Medicaid savings may have to be seriously considered by the President. It is likely that we will include a significant DSH cut, (which will entail some important individual state politics that we will have to work though). The primary outstanding questions will be whether the DSH savings will be sufficient to reach our deficit reduction target and, even if they are, whether a per capita cap will be proposed.

III. INCREMENTAL HEALTH REFORMS

In the absence of comprehensive health care reform, the President has advocated "step-by-step" reforms. With the enactment of the Kassebaum-Kennedy health insurance reforms (as well as the mental health parity and 48 hour maternity protection bills), there is a strong foundation on which to build in the context of a balanced budget.

A. Our Latest Health Reform Proposals

In the last budget and during the campaign, the President advocated for a number of new health care initiatives. In terms of coverage, our budget pays for an initiative to help Americans in-between jobs afford insurance. In terms of access, we are still carrying our voluntary purchasing group concept for small businesses. And, in terms of quality, we are proposing some additional consumer protections (outlined below) and are establishing a quality commission to determine if there is anything else we should be doing.

B. Changes Since This Year's Proposals Were Unveiled

Since the enactment of the Kassebaum–Kennedy insurance reform bill, there has been a renewed interest in seeing how far one can push the envelope in terms of health reform. The Democratic base and groups who support them want to see us go much beyond our workers between jobs initiative. They are particularly interested in a major children's coverage proposal.

In response, the Democratic Leadership is advocating for a kids' coverage package. They have yet to finalize policy primarily because it is very difficult to develop an approach that does not have unintended consequences such as employers or states dropping current coverage of children. Still, if they had to choose, the Democratic Leadership would prefer a children's initiative to our health initiative for the temporarily unemployed. Some Democrats (like Senator Kennedy) believe that extracting a significant new kids coverage policy (funded in part through a tobacco tax) is very achievable. Other Democrats think that, if nothing else, it serves as a nice contrast between Democratic and Republican priorities.

The variable that has not changed is that pressures to balance the budget restrict any realistic chance to do much in this area. In addition, the Republicans remain uninterested in talking about any significant reform; they have other budgetary priorities that take precedence. (The one exception may be Senator Chafee, who may be working on a modest kids coverage initiative.)

C. Health Reforms and Our FY '98 Budget

This year's budget will again include the President's workers between jobs initiative. It dedicates about $2 billion a year to provide premium assistance to help previously insured individuals, who are temporarily unemployed (for up to 6 months), afford to keep their health insurance. It would help approximately 3 million Americans, including 700,000 children. Staff are also reviewing modest options to further expand health coverage and/or services for children and the working disabled within the context of a balanced budget.

Second, the President indicated his concern about changes in the health care delivery system and their impact on quality. As a result, he supports "anti–gag" provisions that prohibit health plans from restricting communications with patients. Initiatives designed to do this have received broad–based, bipartisan support (e.g., Congressmen Ganske and Markey and Senators Kyl and Wyden) and have a real opportunity to pass in the upcoming Congress.

The President also signed an Executive order to create a bipartisan Advisory Commission on Consumer Protection and Quality to review changes occurring in the health care system and, where appropriate, make specific legislative and regulatory recommendations. Members of the Advisory Commission will soon be formally named by the President. The Advisory Commission will likely consist of 30 members with representatives from: health care professions, business, consumers, health care insurers, and state and local governments. Its make–up has been structured to avoid negative perceptions that surrounded the Health Security Act Task Force.

All of these issues are extremely complicated and, as you know, have deep internal and external political roots. I would, of course, be happy to talk with you in further detail about these issues.

MEDICARE Q&As ON THE TRUSTEES REPORT

Q: **The President said his goal was to extend the life of the Trust Fund until 2020. Are you now suggesting that you are raising the bar and making the Congress go further than 2020 to meet the President's desires on Medicare?**

A: The President always has and will continue to firmly believe that we should dedicate 15 percent of the surplus to Medicare. The fact that the Trustees are now projecting that the program is in better shape does not in any way alter the need for the President's proposal. The demographics and the costs are still overwhelming. It is important to recall that even with the new changes in estimates, Medicare remains in worse financial shape than Social Security (2xxx vs. 2xxx as it relates to projected exhaustion dates). The new projections simply mean that we can use the surplus to extend the life of the Trust Fund longer than 2020 and, in the context of broader reform, help pass a long-overdue prescription drug benefit for some of our most vulnerable the nation's citizens.

Q: **FOLLOW-UP: At the State of the Union, the President said that we only needed to make Medicare solvent to 2020. Now that the numbers are better, aren't you just raising the bar to ensure that it is impossible for the Republicans to pay for their tax cut?**

A: No. The President has said he is committed to dedicating 15 percent of the surplus to Medicare as part of a broader effort to strengthen Medicare. Even though the Trustees' report's projections have improved, they also underscore the fact that " INSERT SOMETHING FROM REPORT THAT HELPS MAKE CASE." The President does believe, however, that we should not be tapping any part of the surplus until after we have significantly bolstered the financial health of the Medicare program. Adding only 5 years to the life of the Medicare Hospital Insurance program, which is the most that the plan by Senator Breaux and Congressman Thomas produced, is inadequate. We can and must do better; the President's insistence on a 15 percent surplus dedication to Medicare in the context of broader reforms will assure that we do.

Q: **Now that you can get to 2020 solvency without using all of the 15 percent of the surplus, are you now going to use some of the surplus for prescription drugs?**

A: Our primary goal is to dedicate the surplus to improving Medicare solvency while also taking steps to strengthen and modernize the program. The exact details of the financing we'll be announcing with our plan, and I don't want to say exactly what the financing structure will be until we put our plan out.

Q: **FOLLOW-UP. So prescription drugs will be financed at least in part through the surplus?**

A: We are not going to get to details of the President's plan before it has been completed. Again, he has made no decisions on this provision --or any other provision --at this time.

Q: **When is the President going to release his plan?**

A: There is no set date, but it certainly will be soon enough for the Congress to have a realistic opportunity to review and consider it this year.

Q. **Is it true that raising the age eligibility is off the table?**

A. Raising the eligibility age will not be in the President's package. The President believes that raising the eligibility age for Medicare without policies to prevent the uninsured from increasing is going in the wrong direction.

Q: **How do you respond to the health providers who point to the significant decline in baseline spending as evidence that BBA reforms went too far and much further than orginially projected at the time of enactment?**

A: There are numerous reasons that explain baseline changes. Some relate to the low inflation rate in the economy, some relate to our success in combating fraud and abuse, and some relate explicitly to provider reimbursement changes. It is impossible to tell how much of the change results from BBA reforms. Moreover, the new baseline is only one source of information that should be used in evaluating the appropriateness of provider payments.

Projected 10-Year Savings

HCFA Actuary February 23rd Estimate of Commission Proposal -- Option 1

• Cutting Number of Seniors Eligible	-$25 b
• Added Beneficiary Payments	-$127b
• Extending Provider Cuts	-$57 b
• Fee For Service Reforms	-$22 b
• Removing DME from Trust Fund	-$46 b
• Premium Support	-$75 b
• Interactions	$ 5 b
• **Total**	**-$347b**

Cutting Number of Seniors Eligible: raising the age of Medicare eligibility from 65 to 67

Added Beneficiary Payments: includes increased cost sharing (including a 10% coinsurance on all home health services and 20% coinsurance on other services like laboratory services); and Medigap reforms prohibiting Medigap from 1st dollar coverage

Extending Provider Cuts: extends reductions in provider payments and updates from the Balanced Budget Act of 1997 for 5 years

Removing Direct Medical Education (DME) from the Trust Fund: this is not really a payment reduction, but a budget game. The government will presumably still pay for Direct Medical Education, but it will be moved to another part of the budget.

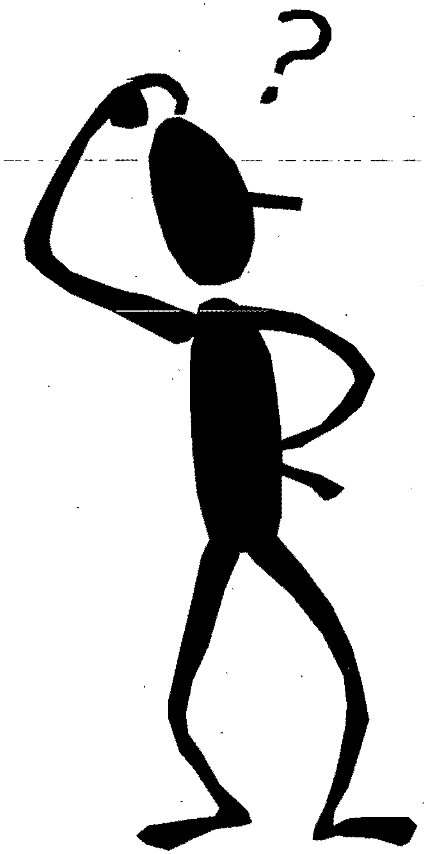
Premium Support: includes savings from managed care reductions in payments to providers; greater efficiencies through competition; and shifting of costs for fee for service beneficiaries.

Interactions: there is a cost to the government because of the way these provisions interact with other programs, like Medicaid.

Cuts to Beneficiaries

Total Cuts to Beneficiaries $141b

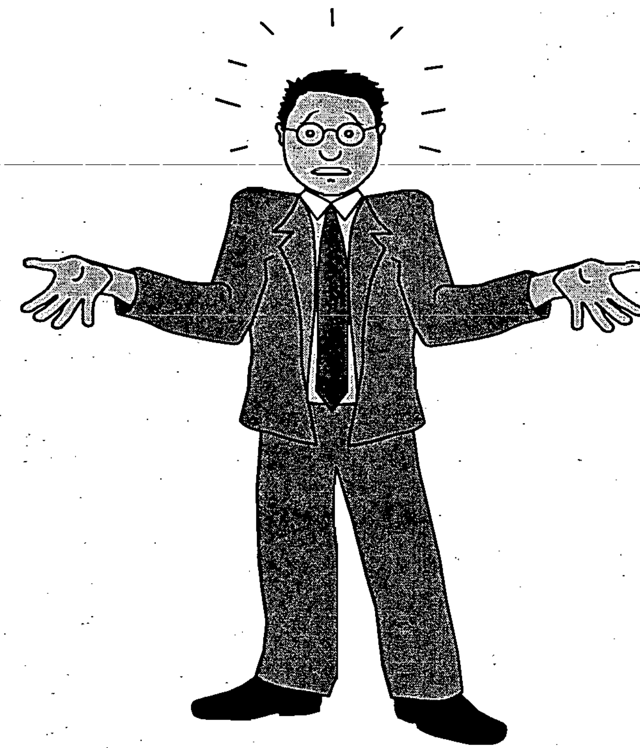
- Added Beneficiary Payments
  - Cost Sharing Increases $20b
  - Income Related Premium $96b
- Cutting Number of Seniors Eligible for Medicare $25b



Extending Provider Cuts

Extending Provider Cuts **$57b**

- Five year extension of payment reductions to providers in the BBA 97

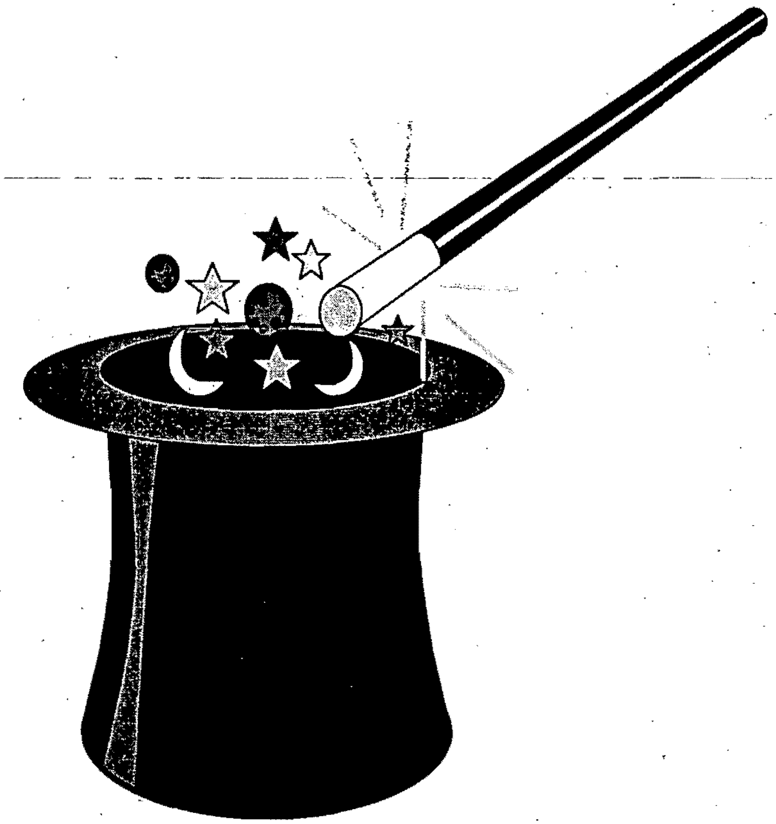


Premium Support Savings

- **Premium Support Savings $75b**

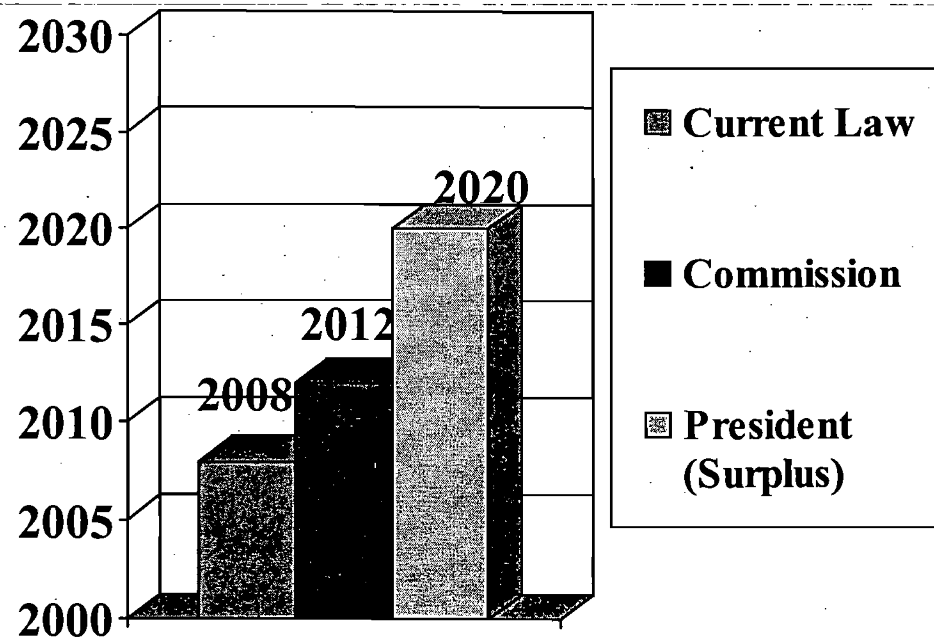
  Commission says savings come from:
  - greater efficiencies and
  - competition

  We believe real savings come from:
  - managed care reductions in payments to providers
  - raising premiums for beneficiaries in fee for service



Does Commission Proposal Save Medicare?

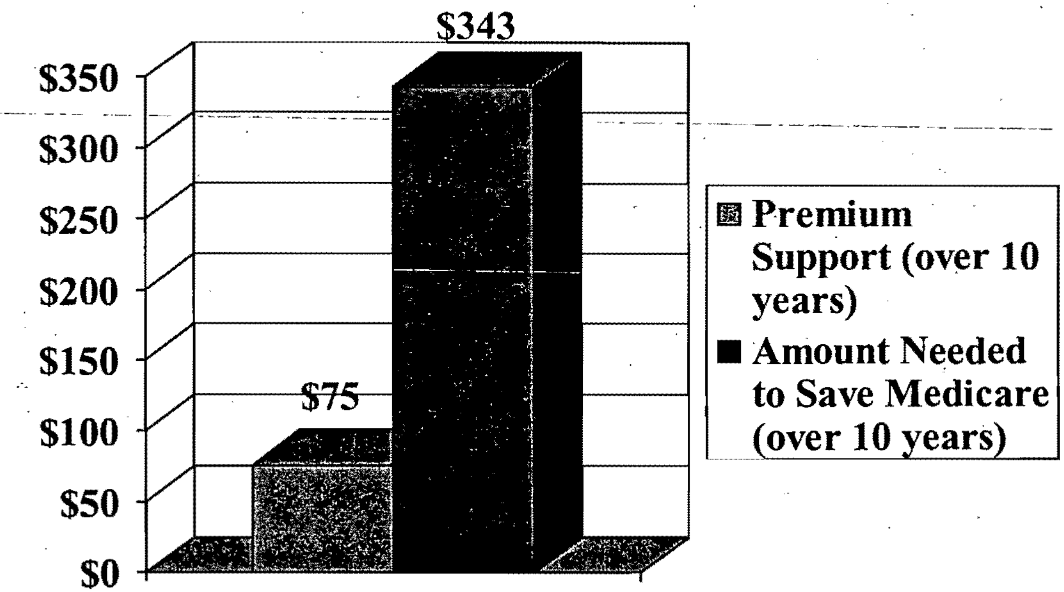
- **Trust Fund Expiration Date**
  - Current Law 2008
  - Commission (best estimate) 2012
  - President's Proposal 2020



Premium Support Falls Short

- Savings from Premium Support (over 10 years) $75b

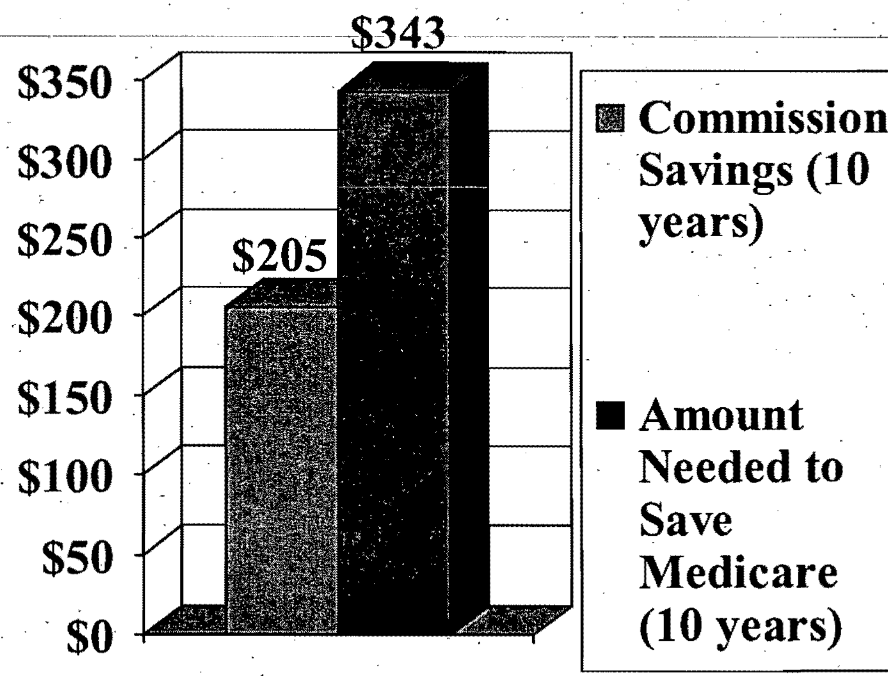
- Amount needed to save Medicare (over 10 years) $343b



Commission Proposal Doesn't Save Medicare

- Commission Savings
  (10 years) $205b

- Amount Needed to Save
  Medicare (10 years) $343b



Medicare Commission File

The Role of Projected Medicare Spending on the Federal Budget

Kenneth E. Thorpe
Tulane University

Overview

I. Pre-Balanced Budget Act Projections of Medicare's Impact on the Budget

II. Post-BBA Measures of the "Affordability" of Medicare

A. Measures
Medicare's role in the federal budget
Medicare and the HI and SMI Trust Funds

B. Implications of Maintaining Medicare Per Beneficiary Growth at the BBA Growth Rates

C. Options for the HI Trust Fund

Implications of the Continued Growth in Managed Care

Table 1. Pre-Balanced Budget Act Projections of Medicare, Total Federal Spending and Revenues as Percent of Gross Domestic Product, 2000-2030

	2000	2005	2010	2015	2020	2030
Revenues	20%	20%	20%	20%	20%	20%
Spending						
Consumption and Other**	11%	9%	9%	9%	9%	9%
Social Security	5%	5%	5%	5%	6%	7%
Medicare	3%	4%	4%	5%	6%	7%
Medicaid	1%	2%	2%	2%	2%	3%
Net Interest	2%	2%	3%	3%	4%	12%
NET DEFICIT	2%	2%	3%	5%	7%	17%

SOURCE: Derived from Congressional Budget Office projections

Revenues include offsetting receipts
**Discretionary and Other spending assumed to grow with the economy. Current baseline projection is lower, growing at inflation.

Projections assume interactive effects of the budget deficit on the economy. Rising levels of debt are presumed to generate lower growth in real GDP per capita.

Table 2. Current Policy Federal Revenue and Spending Projections As Percent of Gross Domestic Product, 1997-2008

	1997	2008
Revenues	20.9%	20.3%
Spending		
Social Security	4.5%	4.7%
Medicare	2.6%	3.4%
Medicaid	1.2%	1.6%
Consumption and Other	9.8%	8.0%
Net Interest	3.1%	1.5%
Net Deficit	**-0.3%**	**1.0%**

SOURCE: CBO

IMPLICATIONS

1. Even with projected rise in Medicare spending over the next ten years, have projected budget surplus.

2. Surplus generated as discretionary spending will rise at inflation, combined with a 1.6 percentage point reduction in the net deficit as a share of GDP

Table 3. Projected Federal Spending and Revenues as Percent of GDP With Medicare Growth Per Beneficiary at BBA Levels, 2000-2030

	2000	2005	2010	2020	2030
Revenues	20%	20%	20%	20%	20%
Spending					
Consumption and Other	9%	9%	9%	8%	8%
Social Security	4%	5%	5%	6%	6%
Medicare	3%	3%	3%	4%	4%
Medicaid	1%	1%	1%	2%	2%
Net Interest	3%	2%	1%	1%	1%
NET DEFICIT	0%	0%	1%	0%	0.5%

Implications

1. Maintaining Medicare growth per capita post 2002 substantially reduces Medicare spending as percent of GDP.

2. Even though Medicare spending rises as share of GDP, this increase is offset by reductions in interest payments (as percent GDP) over time. Balancing the budget has a substantial cumulative impact on reducing the growth in federal outlays on interest payments.

3. Policies similar to those already enacted in the BBA could be used to sustain this rate of growth.

4. If we allow Medicare to "reap" the savings generated from lower interest payments, tax revenues as a percent of GDP must remain at their recent (and historic) levels.

5. Maintaining the growth in Medicare at GDP would allow higher growth elsewhere in the budget, reductions in revunues, or both. However, generating Medicare growth at these levels will require policies other than those adopted in the BBA. Policies that would achieve this objective include higher premiums paid by beneficiaries, or increases (for example to 70) in eligibility starting in 2003 and ending in 2032.

What About the HI Trust Fund?

1. Currently solvent through 2010.

2. Options for longer term solvency include:

   Merging HI and SMI and allocate premium revenue proportionately to each fund
   Finance "social" spending through general revenues

   Revenue options

ACTIONS NEEDED WITHOUT NEW REVENUE

- **Unsustainable, low growth rates.** Competition, efficiency and traditional savings alone cannot secure Medicare. If reductions in growth alone were used to extend the life of the Medicare Trust Fund, spending growth per beneficiary would have to be constrained to 2.8 percent per year -- in every year -- to get to 2020. To put this rate into perspective:

  - Medicare growth would have to be over 60 percent below projected private health insurance spending per person (7.3 percent).

  - By 2020, a growth rate of 2.8 percent per beneficiary would result in Medicare spending that is over 40 percent below what is projected to be under current law.

  - Since this growth rate is below inflation according to the Trustees, the value of Medicare spending per beneficiary would erode. By 2020, Medicare's spending would be 10 percent below today's level.

- **Removing critical services.** To give a sense of the size of the problem, even removing the following services from Medicare Trust Fund financing alone would not be sufficient to extend the life of the Trust Fund through 2020:
  - All skilled nursing facility plus hospice spending, or
  - Part A home health spending, or
  - All graduate medical education and disproportionate share hospital spending.

NEW REVENUE OPTIONS

- **Dedicating 15 percent of the surplus to Medicare.** The President has proposed to dedicate an amount equal to 15 percent of the surplus over the next 15 years to Medicare. This amount is $689 billion over 15 years, $120 billion between 2000 and 2004 alone. This will have the effect of extending the life of the Trust Fund until 2020 with no other changes.

  The surplus is probably the most fair and appropriate source of new revenue for Medicare. It was created largely by the people who will soon become Medicare beneficiaries -- the baby boom generation and those nearing retirement -- whose contributions to the economy have increased revenues.

- **Alternatives would hurt lower wage workers and vulnerable beneficiaries.** The two major alternative sources of new revenue are an increase in the payroll tax and a new beneficiary premium targeted for the Medicare Trust Fund. To get to 2020:

  - **Nearly a 20 percent increase in the payroll tax** for both employees and employers would be needed (from 2.9 to 3.4 percent combined).

  - **A new beneficiary premium of $37 per month on top of the current premium** would be needed to equal the amount transferred from the surplus in 2000 under the President's proposal. This would increase Medicare beneficiaries' premium costs to about $90 per month -- over 75 percent of the level under current law.

224-2047