

THE WHITE HOUSE  
WASHINGTON

February 13, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: CAROL RASCO  
SUBJECT: Kassebaum Medicaid for Welfare Swap

**PURPOSE**

To provide you with background information on the Kassebaum Medicaid/Welfare swap as a follow-up to the discussion you had with the Governors at Blair House. In addition, to provide you with a status report on the level of Congressional interest in and receptivity to this proposal.

**BACKGROUND**

As you know, Senator Nancy Kassebaum has proposed a major restructuring of the social welfare system in which the Federal government would take over full responsibility for Medicaid acute-care and the states would take over the food stamp, AFDC, and WIC programs. During a five-year transition period, a maintenance-of-effort requirement would bar states from reducing overall expenditures on cash and food assistance to the poor and states would continue to bear some share of Medicaid costs.

At least initially, States are attracted to this proposal because it would allow them to relieve themselves of their future Medicaid spending -- which continues to outpace inflation -- and have the Federal government take over. The downside from the Federal Government's perspective is that implementing this proposal would increase the deficit in both the short-term and the long-term. The swap could be modified to be more balanced by giving more programs to the states or by swapping only parts of the Medicaid program. However, any tradeoffs that would make the swap budget-neutral or deficit-reducing would increase costs to many or most states (certainly over the long-run) and are unlikely to be received favorably by the Governors. Since the Republican Congress is desperately looking to save money, it seems unlikely that this conflict will be resolved this year.

There are other significant policy implications of the Kassebaum proposal other than the deficit issue. The DPC/NEC health policy development working group raised four additional major policy concerns about the swap proposal, which are outlined in the following pages.

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## **POLICY IMPLICATIONS OF THE KASSEBAUM SWAP**

**I. Likely Reductions in Welfare Programs.** Experience with states over the past 25 years suggests that states will not maintain existing eligibility requirements and benefits for the welfare programs. In fact, state spending on welfare programs has declined dramatically in real terms:

AFDC benefits in the median state have fallen 47 percent in real terms since 1970, even though the Federal government paid 50 to 80 percent of the benefit costs during this period. Combined AFDC and food stamp benefits for a family with no other income is now at the level of AFDC benefits alone in 1960, before the food stamp program was created.

Even though state appropriations for WIC generally qualify a state for a larger Federal WIC allocation, states have been cutting state funds for WIC in recent years. In the past two years, state funding for WIC fell 33 percent in real terms.

Furthermore, if a balanced budget amendment is passed, prospects that states would maintain cash and food assistance for the poor (after the transition period requiring some maintenance of effort ends) become even less likely.

In contrast, in the two programs where benefits are 100 percent Federally-funded and national benefit standards exist -- the food stamp program and the Federal SSI program -- there has been no benefit erosion over the past 20 or 25 years.

**II. Varying Impacts Among States.** Any swap is likely to have different distributional impacts among states. States that spend more on welfare than Medicaid (according to Kassebaum there are 14 such states) will be losers. At least initially, the other 36 states will be winners -- meaning that Federal government will be picking up some portion of their current spending. The size of the losses and gains could vary dramatically among states.

As some states cut back on their welfare programs -- as is likely under a swap proposal -- variations in welfare benefits among states will increase even more. A key feature of the Federal food stamp program is its role in helping moderate what otherwise would be huge differences between states in the benefits they provide to poor children. Today, food stamp benefits are large in states that pay low AFDC benefits, because a family's food stamp allotment depends on its income level. This moderating effect would disappear once the food stamp program devolved to the states.

The State of Connecticut provides a family of three that has no other income with an AFDC benefit of \$680 per month, about two-thirds of the poverty line. Mississippi, by contrast, pays a family of three only about one-sixth as much -- \$120 a month, which is less than 12 percent of the poverty line. When food stamps are added in, the benefit package in Mississippi climbs from about one-sixth to one-half of the size of the Connecticut package.

**III. Weakening Automatic Stabilizers.** The amount of Federal food stamp benefits provided in a state automatically rises when the state economy turns down and unemployment and poverty mount -- making the program the Federal government's most important automatic stabilizer after unemployment insurance. If AFDC and food stamps are devolved, states will be forced to choose among absorbing the additional benefit costs during recessions, reducing food and welfare benefits, or putting new applicants on waiting lists.

**IV. Complications in Creating a Federal Medicaid Program.** If the Medicaid program became entirely Federal, it would be difficult to justify maintaining the wide variations that now exist among states in the categories of households eligible for the program, the health services that are covered, and the reimbursement rates that are paid to providers. If the Federal government chose to provide uniform coverage similar to that now offered in some of the least generous states, the number of the uninsured would likely rise and beneficiaries in a number of states would lose coverage for some services. If the Federal government instead chose to provide coverage similar to that offered in the most generous states, the cost to the Federal treasury would be great.

#### **NGA AND CONGRESSIONAL RESPONSE TO SWAP**

At least at first glance, the Governors and the NGA were very interested in the Kassebaum proposal. Trading virtually anything to rid the states of their expensive, time consuming and frequently politically unpopular Medicaid obligations has real appeal. As a result, the Governors directed NGA staff to study the implications and potential of the proposal. However, in recent weeks, the Governors, the NGA staff, and the Republicans in the Congress seem to have cooled to the Kassebaum concept.

The Governors now appear to be less interested in the proposal primarily because, in an environment in which the Congressional Republicans' number one priority is obtaining large Federal savings, a Medicaid/welfare swap to achieve this seems either unlikely or will almost invariably and unevenly hurt the states. Second, proposals to block grant welfare -- that particularly the Republican Governors are advocating -- run contrary to the idea of swapping entire programs.

The Republicans in Congress are concluding the Kassebaum proposal has diminished appeal because they are increasingly believing that this proposal would necessitate complicated and controversial negotiations. Its attractiveness further diminishes when they contrast it with block granting proposals that are less complicated and more likely to produce larger Federal savings. Senator Dole's office reports that there is little or no interest in this proposal on the Finance Committee. This is significant because the Finance Committee (not Kassebaum's Labor Committee) has legislative jurisdiction over the Medicaid and AFDC programs.

#### **CONCLUSION**

Despite the states' desire to trade away the Medicaid program, the Congressional interest in producing significant Medicaid savings as well as the major policy implications of the proposal indicate that this type of swap is unlikely to go very far in the 104th Congress.

## AMA Agreement with Speaker Gingrich

- Last night, in a closed door meeting, the American Medical Association (AMA) reached an agreement with Speaker Gingrich on the House Republican Medicare restructuring proposal. Although the details have not been shared with the public, it is clear that they have succeeded in placing their interest above that of their patients.
- The deal they cut shows their true vision for Medicare. They want to push Medicare beneficiaries into their so-called "Medicare-Plus" plans. It is actually going to be Medicare "Minus."
- So what did the AMA get to sign on to such unprecedented Medicare cuts?
  - **Number One.** They secured a provision to permit doctors and health insurance plans to overcharge beneficiaries as much as they want in the new Republican managed care plans.
  - **Number Two.** They reduced the physician cut by about \$3-5 billion dollars which will simply shift a greater proportion of the cuts to beneficiaries and other health care providers who are already being unfairly burdened.
  - **Number Three.** They got a cap on medical malpractice damages, so that victims of 'bad apple' doctors cannot be adequately compensated.
- So who are the losers?
  - The losers are the patients of the AMA physicians.
  - The losers are health care providers who are going to bear a greater share of the cuts.
  - The losers are the entire health care system and the patients it serves.
- It is ironic that this deal was struck when, according to the AMA, the average physician's income is \$189,000 a year, while the average Medicare beneficiary's income is \$13,000.
- It is also clear that the AMA does not represent all doctors, many of whom continue to fight against the dramatic and excessive Republican cuts in Medicare and Medicaid. This is exemplified by the fact that the percentage of doctors and medical students in the AMA has dropped from 70% to 40%.

THE WHITE HOUSE  
WASHINGTON

November 24, 1995

The Honorable Newt Gingrich  
Speaker  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Speaker:

In the coming days, we have a vital opportunity to work together to balance the budget in a way that reflects the values and priorities of the American people. Our first responsibility should be to implement policies that are good for America. We believe that the right policy for the American people is one that balances the budget while protecting Medicare, Medicaid, education, and the environment, and targeting tax relief to the middle class -- without any new tax increase on working families. The President's balanced budget plan shows how we can eliminate the deficit and protect these values.

As you know, the President believes that your seven-year balanced budget plan fails to protect Medicare, Medicaid, education, the environment and tax fairness, and therefore, he will veto it. However, he is committed to working with you in good faith to reach common ground. We are willing to work hard to see if we can reach balance in seven years, but as our agreement makes clear, we cannot agree to any plan unless it protects our commitment to health care, education, the environment and tax fairness. It is disappointing that your letter of November 22 does not contain a single word about these priorities, which are enshrined in the continuing resolution agreement.

The agreement calls for doing two things together: balancing the budget in seven years *and* protecting the key priorities the President has laid out. Right now, neither of our balanced budget plans satisfies both objectives. Now we must work together in a good faith effort to see if it is possible to meet all of the commitments contained in the continuing resolution.

Since neither of our budgets satisfies both conditions, each of us could take the position that we cannot begin talks until the other side shows in detail how it can meet all of the demands of the other. But such a position is unreasonable and unproductive. Likewise, we can spend the next several days exchanging letters and posturing in public, or we can engage in the serious work of negotiating a balanced budget that is fair to all Americans. Now is the time for all of us to work through the budget, issue by issue, in the careful and thorough way demanded by matters of great national importance.

Listed below are some of the principles that will have to be addressed to the President's satisfaction before he can sign a balanced budget plan. We could request that you show us your legislative plan for meeting each one of these principles before we even sit down to talk. We both know, however, that this would only lead to gridlock.

The Honorable Newt Gingrich  
November 24, 1995  
Page 2

Instead, we list these principles so that there is clarity as to what some of our primary concerns are. We hope that we will be able to have serious working sessions to see if we can meet these principles and reach balance in seven years.

**1. Continue Medicare's guarantee of high quality medical care for senior citizens and people with disabilities by ensuring trust fund solvency and protecting beneficiaries.**

- Ensure the viability of the Medicare Trust Fund for at least 10 years.
- Protect Medicare beneficiaries from premium increases beyond current law and from programmatic changes that would drive up their overall health costs.
- Keep Medicare first-class medical care by ensuring that resources available for each Medicare beneficiary keep pace with growth in private health care costs.
- Ensure the viability of hospitals and other critical health care providers in underserved rural and urban areas.

**2. Ensure adequate funding for Medicaid by:**

- Maintaining Medicaid as a national guarantee of specified and adequate benefits for low-income families with children, Americans with disabilities and elderly Americans.
- Maintaining the quality of health care received by nursing home residents.

**3. Maintain tax fairness.**

- No tax increases on families or individuals with an income less than \$30,000 a year.
- Concentrate any tax relief on the middle class.
- No special tax breaks for special interests.
- No changes in tax policy that undermine protection of employee pension funds.

**4. Maintain real funding levels over the life of the budget plan in education and other investments critical to protecting future generations.**

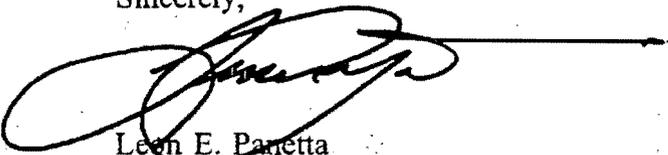
- Ensure that both children and workers have the resources for training and technology they need to succeed in the 21st century workforce.
- Allow all colleges to choose the student loan program that best fits their students' needs and maintain real resources for student loans and scholarships.

The Honorable Newt Gingrich  
November 24, 1995  
Page 3

5. **Ensure funding levels required to sustain progress achieved in environmental protection, enforcement, and public health.**
  - Eliminate all extraneous provisions in the budget that reduce environmental protection.
6. **Reform welfare to provide adequate incentives and resources to move people from welfare to work.**
  - Maintain basic national commitment to protect child nutrition by continuing adequate funding for school lunches.
  - Preserve a national nutritional safety net of specified and adequate benefits for food stamps.
7. **Preserve an Agriculture program that continues to ensure the strength of America's farm sector and family farms.**
8. **Continue Defense funding levels that support the armed forces and defense programs necessary in the post-Cold War environment.**
9. **Maintain our commitment to providing our veterans with benefits to which they are entitled.**

We look forward to serious negotiations to reach a balanced budget that reflects the values and priorities of the American people.

Sincerely,



Leon E. Panetta  
Chief of Staff

Identical letter sent to:

Senate Majority Leader Bob Dole  
House Budget Committee Chairman John Kasich  
Senate Budget Committee Chairman Pete Domenici

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Federal Document Clearing House

XXX next several weeks.

SESNO: When's your blueprint coming out? You're talking about Democrats saying, "You Republicans have nothing more than a stealth plan here."

GINGRICH: Well, I commented Friday, I vote a stealth plan beat no plan at all. And they don't seem to have any plan. As you know on April 3rd, the trustees reported that the Medicare trust fund next year for the first time in history, would be bankrupt in seven years. We've taken that seriously, and we'll be unveiling I think, the first or second week in September a plan.

We are frankly going to slow down the reconciliation process to take an extra week so we can have public hearings. Chairman Bill Thomas and Chairman Mike Bilirakis have both indicated they plan to have public hearings on the plan, and we intend to give our members time to go back home and talk to folks on the weekends -- and have town hall meetings those Saturdays. And share the ideas before they ever come to a vote.

So, I think it'll be all out in the open. But what we've done is reach out to every major health care providing group in America, and ask them for their best ideas. So the people who actually deliver the health care, are helped right in the plan, so it's focused not on bureaucracy, not on theory, not on some Harvard intellectual. It's focused on getting real health care to protect our senior citizens. So that we can preserve and protect Medicare as a program.

SESNO: Isn't the bottom line though, on Medicare this, regardless of who's plan it is, if you're going to squeeze this money out of it, that there's going to have to be some effect to the senior citizens of the United States of America. Either higher co-pays, or they're going to get these vouchers. And they're going to be able to cover maybe only HMO's, but they'll have to put extra money...

GINGRICH: No, no, that is absolutely wrong. No, that's absolutely wrong.

SESNO: Oh, put your microphone back on, or we won't be able to hear you.

GINGRICH: As I say, I got so excited that I lost my mike. It's absolutely wrong. We currently pay \$4800 per senior citizen for Medicare. We will pay at the end of the seven years, \$6700 per senior citizen. That's a \$1900 per person increase. That's per person, now.

Now, what we've done has gone out to the American Medical Association, the American Hospital Association, the health maintenance organizations, Blue Cross-Blue Shield, a wide range of companies. And we've said to all sorts of different groups: Do you believe we can design a program which for \$6700 per person per year provides them terrific coverage?

And they've consistently said, "If we'll get the red tape, and the regulations, and the Health Care Financing Administration's centralized bureaucracy out of the way, let them deal directly with senior citizens as customers, and let them offer health care, and not government bureaucracy."

SESNO: Are you saying, let me jump in here though. Are you saying that there will be a voucher of \$6700 per senior citizen in this country?

GINGRICH: We're saying that those senior citizens who want to can stay in the current program. And we think the current program is likely to increase

in cost, in terms of co-payments and deductibles, at about the same rate it has over the last eight years.

SESNO: If you give a voucher to a senior citizen and say, "Go buy health insurance. For them to pay seven or eight thousand dollars at their age for a fee for service may leave them out of it.

GINGRICH: Wait a second, you, in the first place I just said, if you want to stay in the current program -- we're going to keep the current program. So, you just stay in the current program. We don't think most seniors will want to after they look at the options. But, that's their right. Nobody is going to be forced to leave the current programs.

Let me start, Frank, if you want to stay in the current program, just stay in it, don't worry about it. However, if you'd rather look at other options, we'll think you'll have what we're calling -- for the moment -- we're looking at a "medi-choice" we think you'll have a medical savings account option. We think you'll have a coordinated care option, we'll think you'll have a series of other options.

We're looking at the possibility you could say in your current group insurance when you turn 65. And just stay with the company you've been with you're entire working career. We want senior citizens to have the right to choose. We also recognize -- there's a big article in the Atlanta paper this morning -- about one doctor who was charging -- one doctor -- who was charging Medicaid \$6 million a year. And that's called fraud.

MORE

\*\*\*\* filed by:RB--(-- ) on 08/06/95 at 18:23EDT \*\*\*\*  
\*\*\*\* printed by:WHPR(197) on 08/07/95 at 20:18EDT \*\*\*\*

Gingrich quote  
- CNN - 8/6/95

Artzt Gingrich  
Sixth District  
Georgia



(202) 225-0600

Office of the Speaker  
United States House of Representatives  
Washington, DC 20515

April 28, 1995

The Honorable Bill Clinton  
The White House  
Washington, D.C.

8

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 and Human Services Departments and the Commissioner of Social Security. The Trustees indicated, in both their 1994 and 1995 reports that urgent action is necessary.

"...the HI program is severely out of balance and the Trustees believe that Congress must take timely action to fundamentally reform the HI program and control related program expenditures."

-- 1994 Board of Trustees Annual Report, Hospital Insurance Trust Fund

Last year, you agreed that program expenditures should be slowed, and you proposed to reduce the rate of growth by \$118 billion. Congress did not enact these reforms due to their entanglement in your health reform proposal.

This year, the Trustees warning is even more dire:

"To bring the HI program into actuarial balance even for the first 25 years...either outlays would have to be reduced by 30 percent or income increased by 44 percent (or some combination thereof)...the HI program is severely out of financial balance and the Trustees believe that the Congress must take timely action to establish long-term financial stability for the program."

-- 1995 Supplemental Medical Insurance Report from Secretaries Reich, Rubin and Shalala, Commissioner Chater, Public Trustees Stanford G. Ross, and David

M. Walker, and Bruce C. Vladek, Administrator of HCFA and Secretary to the Board of Trustees.

"...growth rates have been so rapid that outlays of the program have increased 53% in aggregate and 40% per enrollee in the last five years...The Trustees believe that prompt, effective, and decisive action is necessary."

- 1995 Hospital Insurance Trust Fund Annual Report from Secretaries Reich, Rubin and Shalala, Commissioner Chater, Public Trustees Stanford G. Ross, and David M. Walker, and Bruce C. Vladek, Administrator of HCFA and Secretary to the Board of Trustees.

Part B costs per beneficiary were \$2,046.00 in 1994. In the year 2002, the year in which the Trustees predict bankruptcy for the Part A program, costs per beneficiary are estimated to be \$4,430.47. This is obviously an unsustainable rate of growth. Yet your most recent budget, however, contained *no new proposals* other than minor extensions of current law to limit the growth of the Part B program.

In the submission of your Health Security Act last year, you noted that Medicare reform should only be accomplished in the context of comprehensive health care reform legislation. The public Trustees clearly believe such action unwise, indicating in the 1995 report that Medicare savings should not be considered for any other purpose:

"...it is now clear that Medicare reform needs to be addressed as a distinct legislative initiative...The idea that reductions in Medicare expenditures should be available for other purposes, including even other health care purposes, is mistaken."

- Public Trustees David Walker and Stan Ross, 1995 Hospital Insurance Trustees Report

Given the urgency with which the Trustees have spoken, the Congress intends to address the Medicare crisis this year. We believe the American people expect us to work together on issues as important as the Medicare program. We ask that you direct Secretaries Reich, Rubin and Shalala, Commissioner Chater, and Administrator Vladek to make recommendations to the Congress no later than May 15, 1995. Specifically, we believe these recommendations should address these concerns and questions:

• Medicare bankruptcy has often been postponed by tax increase. The most recent tax increase merely postponed bankruptcy by one or two years; the underlying growth rate remains unaddressed and the program is no closer to long term solvency. The Trustees recommend two 25 year solvency tests for the HI Trust Fund. Please present proposals that would make Medicare meet both tests. It is obviously inappropriate that the recommendations concerning Parts A merely shifts its costs to Part B, particularly given

the Trustees concerns about cost increases in the Supplemental Medical Insurance program. Does the Administration recommend tax increases? *Medical  
that time*

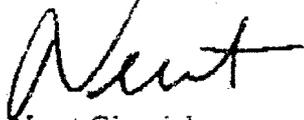
- The Public Trustees of the Medicare Hospital Insurance Trust Fund have stated unambiguously that Congress should undertake Medicare reform *independent* of any other health care reform activities. Do you believe that the Public Trustees are wrong in this assessment? *Yes*
- The Trustees recommend controlling the rate of growth for the Supplemental Medical Insurance program. Please recommend proposals to reduce the program's costs.
- The Administration's latest guidance on Medicare reform remains their 1994 proposals, which would result in Medicare savings of about \$118 billion. The Administration has indicated its support for incremental reform. Do you continue to support these proposals? *Not outside system*

We will provide a more detailed set of questions in a later communication.

We believe there is no excuse to ignore the problem of Medicare, a program that will spend more than it takes in next year, and will be completely unable to pay benefits in seven years.

Next week, you are convening the Fourth White House Conference on Aging, a nonpartisan event that occurs only once every decade. The final agenda for the Conference indicates that health is the primary concern of the delegates. Surely, this is the time to begin building a national consensus on how to make Medicare solvent.

Sincerely,

  
Newt Gingrich

Quotes from Republicans praising President Clinton for joining them on saving the Medicare Trust Fund and Medicare savings.

Mr. Gingrich said that Mr. Clinton's proposal had been "very helpful" to the GOP cause. "He validated getting a balanced budget; he validated that you have to do something significant to save Medicare because the trust fund is going broke..." [*The Baltimore Sun*, 6/23/95]

"Just to get the president to admit that the Medicare trust fund is going broke -- so we have to do something to fix it, that there have to be major changes -- I thought that was a fabulous increase in improving Medicare," Newt Gingrich said. [6/11 NH town meeting]

"I think it was very helpful and the reason I think it was very helpful was he validated getting to a balanced budget as a goal. He validated-- you have to do something significant to save Medicare because the trust fund is going broke. He validated that it is acceptable to cut taxes while getting to a balanced budget because he also proposed it. He validated putting pretty tight reins on domestic spending. He validated not cutting defense," Newt Gingrich said. [CNN, 6/22/95]

Gingrich said "...just by getting the President to admit that the Medicare trust fund is going broke and that we do have to do something to fix it and that we do have to make major changes." [*Los Angeles Times*, 6/13/95]

"The president frankly created an environment in which it became easier to balance the budget," Gingrich said. [*Chicago Tribune*, 6/23/95]

THE WHITE HOUSE

WASHINGTON

December 27, 1994

Dear Newt:

While we could not achieve broad-based agreement on a health reform initiative last year, there can be little disagreement that we still face the enormous problems of increasing health care costs and decreasing coverage. We need to confront these problems on a bipartisan basis and address the insecurities that too many Americans have about their health care. I am writing to reiterate my strong desire to work with you in this regard.

I remain firmly committed to providing insurance coverage for every American and containing health care costs for families, businesses, and Federal, State, and local governments. In the upcoming session of Congress, we can and should work together to take the first steps toward achieving these goals. We can pass legislation that includes measures to address the unfairness in the insurance market, make coverage more affordable for working families and children, assure quality and efficiency in the Medicare and Medicaid programs, and reduce the long-term Federal deficit.

We look forward to talking with you in the upcoming weeks about a bipartisan effort to deliver health care reform to the American public. Hillary and I send our best wishes for a safe and happy holiday season.

Sincerely,



The Honorable Newt Gingrich  
House of Representatives  
Washington, D.C. 20515

October 11, 1995

TO: Interested Parties  
FROM: Chris Jennings  
SUBJECT: Likely Details of (AMA's) Deal with Speaker Gingrich

The AMA's deal has not been released. However, preliminary reports indicate that the AMA obtained several significant provisions in exchange for their support of the House Medicare plan, including the following:

- (1) Balance Billing. Medicare beneficiaries who enroll in the new private fee-for-service or high deductible MSA plan would lose their current law "balance billing" protection (i.e., limits on how much physicians can charge beneficiaries). This is particularly a problem because there is not requirement that physicians stay in fee-for-service (i.e., physicians could abandon regular Medicare and only see beneficiaries in plans where they can balance bill).
- (2) Medicare Payments. Press Reports are unclear about the concessions that the AMA obtained last night, but reports are that AMA received \$3 to \$5 billion less in savings and was protected against decreases. Since the Medicare physician payment savings in the House bill was scored by CBO at \$26 billion, the savings would now be scored at \$21 to \$23 billion.
- (3) Malpractice Reform. Establishes numerous medical malpractice liability reforms including placing stringent limits (\$250,000) on non-economic damages.
- (4) Anti-Trust Exemption. Creates a broad anti-trust exemption for medical self-regulatory entities and substantially relaxes the anti-trust exemption for provider service networks. (The FTC and the Justice Department strongly object to these provisions and believe that they would encourage anti-competitive conduct and raise health care costs to consumers).
- (5) Physician Service Organizations. Allows physicians and other providers to form managed care arrangements under Medicare, but does not subject them to same rules as HMOs (also supported by the Administration).
- (6) CLIA Exemption. Exempts physician office labs from quality requirements despite the fact that to date more quality problems have been identified with physician office labs than other settings.

- (7) Referrals. Virtually eliminates the prohibitions on referring to facilities in which the physician has ownership interest or other financial relationship.
- (8) Anti-Kickback. Makes it more difficult to prosecute abusive kick-back arrangements (which creates double whammy with the changes in referrals).

One possibility to obtain "scored savings" while being spared the "real" cuts would be some type of fall-back mechanism. The fallback mechanism would be "scored" off the higher (CBO) baseline but would be "spared" the cuts because they would never materialize off the Administration baseline. All the provider groups seem to be trying to cut deals for fall-back mechanisms scored from the higher CBO baseline instead of traditional real cuts.

The AMA deal with the House is incredibly sweet.

- o AMA has obtained extensive "real" concessions that they have long wanted and which would fundamentally change Medicare's relationship with physicians and create plenty of opportunity for physicians to improve their financial status at the expense of beneficiaries.

This analysis is obviously preliminary. As we get more specifics, we will give you updates. Hope you find this helpful.

## AMA Agreement with Speaker Gingrich

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-House Republican Budget Proposal  
(Medicaid) Notes

HEALTH CARE FINANCING ADMINISTRATION  
OFFICE OF LEGISLATIVE AND INTER-GOVERNMENTAL AFFAIRS

M E M O R A N D U M

TO: Jerry Klepner, John Callahan, Jack Ebler  
FROM: Debbie Chang  
DATE: October 26, 1995  
RE: Clearance - Estimate of Supplemental Allotment to States  
for Emergency Health Care Services to Undocumented  
Individuals

Andy Schneider of the House Democratic Policy Committee is eager to have an estimate of how much additional Federal Medicaid funding States would receive under the supplemental allotment process for emergency health care services provided to undocumented individuals.

Jeanne Lambrew of HHS/ASPE, working with John Klemm of HCFA/OACT, produced the attached estimate. We are seeking to clear it quickly, for Andy and other key staff.

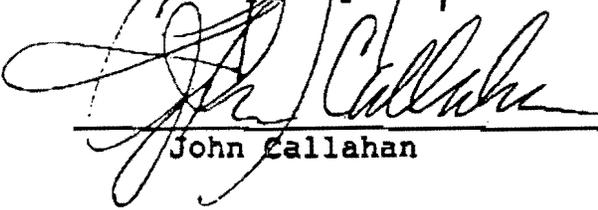
The estimate is based on the text of a Republican leadership amendment adding a new subsection (f) to section 2121 of the House Republican budget reconciliation bill. It would implement the promise made by the Speaker to provide additional funds to the States.

Please indicate your decision below:

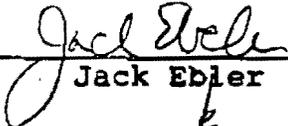
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Clear or Not Clear      10/26  
Date

  
\_\_\_\_\_  
Jerry Klepner

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Clear or Not Clear      10/26  
Date

  
\_\_\_\_\_  
John Callahan

✓ \_\_\_\_\_  
Clear or Not Clear      10/26  
Date

  
\_\_\_\_\_  
Jack Ebler

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Clear or Not Clear      Date

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Nancy Ann Min

cc:

**Estimates of the Distribution of the Supplemental Allotment for Emergency Health Care Services to New Aliens**

				1996	1997	1998	1999	2000	2001	2002	7-Year Total
<b>US Total (1)</b>				0.367	0.394	0.412	0.429	0.447	0.466	0.485	3.000
<b>State (2)</b>	<b>Unauthorized Immigrants</b>			<b>Dollars from the Pool</b>							
	<b># In 92</b>	<b>% of Total</b>	<b>% of Eligible</b>								
	<b>(1,000s)</b>		<b>States</b>								
California	1440.7	42.7%	46.7%	0.171	0.184	0.192	0.200	0.209	0.218	0.227	1.401
New York	449.4	13.3%	14.6%	0.053	0.057	0.060	0.063	0.065	0.068	0.071	0.437
Texas	357.0	10.6%	11.8%	0.042	0.046	0.048	0.050	0.052	0.054	0.056	0.347
Florida	321.9	9.5%	10.4%	0.036	0.041	0.043	0.045	0.047	0.049	0.051	0.313
Illinois	176.4	5.2%	5.7%	0.021	0.023	0.024	0.025	0.026	0.027	0.028	0.172
New Jersey	115.7	3.4%	3.8%	0.014	0.015	0.015	0.016	0.017	0.017	0.018	0.113
Arizona	57.0	1.7%	1.8%	0.007	0.007	0.008	0.008	0.008	0.009	0.009	0.055
Massachusetts	44.9	1.3%	1.5%	0.005	0.006	0.006	0.006	0.007	0.007	0.007	0.044
Virginia	35.5	1.1%	1.2%	0.004	0.005	0.005	0.005	0.005	0.005	0.006	0.035
Washington	30.4	0.9%	1.0%	0.004	0.004	0.004	0.004	0.004	0.005	0.005	0.030
Georgia	28.1	0.8%	0.9%	0.003	0.004	0.004	0.004	0.004	0.004	0.004	0.027
Maryland	27.4	0.8%	0.9%	0.003	0.004	0.004	0.004	0.004	0.004	0.004	0.027
<b>Eligible States</b>	<b>3084.4</b>										

**NOTES:**

(1) From Preliminary CBO staff estimates of the Commerce Committee Medicaid Transformation Act, October 25

(2) From INS Statistics division

26-Oct-95

THE WHITE HOUSE  
WASHINGTON

November 24, 1995

The Honorable Newt Gingrich  
Speaker  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Speaker:

In the coming days, we have a vital opportunity to work together to balance the budget in a way that reflects the values and priorities of the American people. Our first responsibility should be to implement policies that are good for America. We believe that the right policy for the American people is one that balances the budget while protecting Medicare, Medicaid, education, and the environment, and targeting tax relief to the middle class -- without any new tax increase on working families. The President's balanced budget plan shows how we can eliminate the deficit and protect these values.

As you know, the President believes that your seven-year balanced budget plan fails to protect Medicare, Medicaid, education, the environment and tax fairness, and therefore, he will veto it. However, he is committed to working with you in good faith to reach common ground. We are willing to work hard to see if we can reach balance in seven years, but as our agreement makes clear, we cannot agree to any plan unless it protects our commitment to health care, education, the environment and tax fairness. It is disappointing that your letter of November 22 does not contain a single word about these priorities, which are enshrined in the continuing resolution agreement.

The agreement calls for doing two things together: balancing the budget in seven years *and* protecting the key priorities the President has laid out. Right now, neither of our balanced budget plans satisfies both objectives. Now we must work together in a good faith effort to see if it is possible to meet all of the commitments contained in the continuing resolution.

Since neither of our budgets satisfies both conditions, each of us could take the position that we cannot begin talks until the other side shows in detail how it can meet all of the demands of the other. But such a position is unreasonable and unproductive. Likewise, we can spend the next several days exchanging letters and posturing in public, or we can engage in the serious work of negotiating a balanced budget that is fair to all Americans. Now is the time for all of us to work through the budget, issue by issue, in the careful and thorough way demanded by matters of great national importance.

Listed below are some of the principles that will have to be addressed to the President's satisfaction before he can sign a balanced budget plan. We could request that you show us your legislative plan for meeting each one of these principles before we even sit down to talk. We both know, however, that this would only lead to gridlock.

The Honorable Newt Gingrich  
November 24, 1995  
Page 2

Instead, we list these principles so that there is clarity as to what some of our primary concerns are. We hope that we will be able to have serious working sessions to see if we can meet these principles and reach balance in seven years.

**1. Continue Medicare's guarantee of high quality medical care for senior citizens and people with disabilities by ensuring trust fund solvency and protecting beneficiaries.**

- Ensure the viability of the Medicare Trust Fund for at least 10 years.
- Protect Medicare beneficiaries from premium increases beyond current law and from programmatic changes that would drive up their overall health costs.
- Keep Medicare first-class medical care by ensuring that resources available for each Medicare beneficiary keep pace with growth in private health care costs.
- Ensure the viability of hospitals and other critical health care providers in underserved rural and urban areas.

**2. Ensure adequate funding for Medicaid by:**

- Maintaining Medicaid as a national guarantee of specified and adequate benefits for low-income families with children, Americans with disabilities and elderly Americans.
- Maintaining the quality of health care received by nursing home residents.

**3. Maintain tax fairness.**

- No tax increases on families or individuals with an income less than \$30,000 a year.
- Concentrate any tax relief on the middle class.
- No special tax breaks for special interests.
- No changes in tax policy that undermine protection of employee pension funds.

**4. Maintain real funding levels over the life of the budget plan in education and other investments critical to protecting future generations.**

- Ensure that both children and workers have the resources for training and technology they need to succeed in the 21st century workforce.
- Allow all colleges to choose the student loan program that best fits their students' needs and maintain real resources for student loans and scholarships.

The Honorable Newt Gingrich  
November 24, 1995  
Page 3

5. **Ensure funding levels required to sustain progress achieved in environmental protection, enforcement, and public health.**
  - Eliminate all extraneous provisions in the budget that reduce environmental protection.
6. **Reform welfare to provide adequate incentives and resources to move people from welfare to work.**
  - Maintain basic national commitment to protect child nutrition by continuing adequate funding for school lunches.
  - Preserve a national nutritional safety net of specified and adequate benefits for food stamps.
7. **Preserve an Agriculture program that continues to ensure the strength of America's farm sector and family farms.**
8. **Continue Defense funding levels that support the armed forces and defense programs necessary in the post-Cold War environment.**
9. **Maintain our commitment to providing our veterans with benefits to which they are entitled.**

We look forward to serious negotiations to reach a balanced budget that reflects the values and priorities of the American people.

Sincerely,



Leah E. Panetta  
Chief of Staff

Identical letter sent to:

Senate Majority Leader Bob Dole  
House Budget Committee Chairman John Kasich  
Senate Budget Committee Chairman Pete Domenici

October 11, 1995

AMA  
Deal

TO: Interested Parties  
FROM: Chris Jennings  
SUBJECT: Likely Details of AMA's Deal with Speaker Gingrich

The AMA's deal has not been released. However, preliminary reports indicate that the AMA obtained several significant provisions in exchange for their support of the House Medicare plan, including the following:

- (1) Balance Billing. Medicare beneficiaries who enroll in the new private fee-for-service or high deductible MSA plan would lose their current law "balance billing" protection (i.e., limits on how much physicians can charge beneficiaries). This is particularly a problem because there is not requirement that physicians stay in fee-for-service (i.e., physicians could abandon regular Medicare and only see beneficiaries in plans where they can balance bill).
- (2) Medicare Payments. Press Reports are unclear about the concessions that the AMA obtained last night, but reports are that AMA received \$3 to \$5 billion less in savings and was protected against decreases. Since the Medicare physician payment savings in the House bill was scored by CBO at \$26 billion, the savings would now be scored at \$21 to \$23 billion.
- (3) Malpractice Reform. Establishes numerous medical malpractice liability reforms including placing stringent limits (\$250,000) on non-economic damages.
- (4) Anti-Trust Exemption. Creates a broad anti-trust exemption for medical self-regulatory entities and substantially relaxes the anti-trust exemption for provider service networks. (The FTC and the Justice Department strongly object to these provisions and believe that they would encourage anti-competitive conduct and raise health care costs to consumers).
- (5) Physician Service Organizations. Allows physicians and other providers to form managed care arrangements under Medicare, but does not subject them to same rules as HMOs (also supported by the Administration).
- (6) CLIA Exemption. Exempts physician office labs from quality requirements despite the fact that to date more quality problems have been identified with physician office labs than other settings.

- (7) Referrals. Virtually eliminates the prohibitions on referring to facilities in which the physician has ownership interest or other financial relationship.
- (8) Anti-Kickback. Makes it more difficult to prosecute abusive kick-back arrangements (which creates double whammy with the changes in referrals).

One possibility to obtain "scored savings" while being spared the "real" cuts would be some type of fall-back mechanism. The fallback mechanism would be "scored" off the higher (CBO) baseline but would be "spared" the cuts because they would never materialize off the Administration baseline. All the provider groups seem to be trying to cut deals for fall-back mechanisms scored from the higher CBO baseline instead of traditional real cuts.

The AMA deal with the House is incredibly sweet.

- o AMA has obtained extensive "real" concessions that they have long wanted and which would fundamentally change Medicare's relationship with physicians and create plenty of opportunity for physicians to improve their financial status at the expense of beneficiaries.

This analysis is obviously preliminary. As we get more specifics, we will give you updates. Hope you find this helpful.

Congress of the United States

Washington, DC 20515

July 25, 1995

ATTN: Chris Jennings  
From: John Harris

The President  
The White House  
Washington, DC 20500

Dear Mr. President:

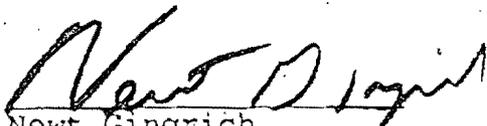
As the nation marks the 30th anniversary of Medicare this week, America's seniors are certain to be treated to a large dose of political rhetoric, and regrettably, some distortions about this program's future.

In the interest of providing the American people with the facts they need to make informed judgments about this important policy debate, we are writing to request that you direct Secretary Shalala to send to all Medicare recipients the official summary of the 1995 annual report of the Medicare Board of Trustees. As you know, the Trustees, who include three members of your own cabinet, concluded that Medicare will go bankrupt in just seven years. If Medicare goes bankrupt, no payments, by law, can be made by Medicare to pay for hospital care or for any other services paid for by the Trust Fund. The 33 million seniors and four million Americans with disabilities who depend on Medicare every year have a right to know these important facts.

It is because of this impending bankruptcy that Republicans in Congress are committed to bold and decisive action to preserve, strengthen and protect Medicare -- action that will still allow Medicare spending to increase from \$178 billion this year to \$274 billion in 2002.

We appreciate your consideration of this request, and we hope you share our determination to see Medicare live past 2002, its 37th birthday.

Sincerely,



Newt Gingrich  
Speaker of the House



Bob Dole  
Senate Majority Leader

THE WHITE HOUSE  
WASHINGTON

file  
November 24, 1995

The Honorable Newt (Gingrich)  
Speaker  
U.S. House of Representatives  
Washington, D.C. 20515

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The Honorable Newt Gingrich  
November 24, 1995  
Page 2

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The Honorable Newt Gingrich

November 24, 1995

Page 3

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9. **Maintain our commitment to providing our veterans with benefits to which they are entitled.**

We look forward to serious negotiations to reach a balanced budget that reflects the values and priorities of the American people.

Sincerely,

Leon E. Panetta  
Chief of Staff

Identical letter sent to:

Senate Majority Leader Bob Dole  
House Budget Committee Chairman John Kasich  
Senate Budget Committee Chairman Pete Domenici

# MEMORANDUM

December 8, 1995

TO: Distribution  
FR: Chris Jennings  
RE: Updated Medicare/Medicaid Information

Attached are the latest materials we have produced on the President's health care initiative. Included you will find:

- An Executive Summary of the President's health care initiative;
- A Side-by-Side summary Table Comparison of key Medicare/Medicaid issues;
- A one-page talking point document on Medicare with accompanying charts; and
- An analysis of the effect of the President's Medicaid plan on cities.

We hope this information is useful. Please feel free to call 456-5660 with any questions.

# President Clinton's Health Care Initiative

The President's health care initiative will strengthen and protect Medicare and Medicaid, and will increase access to and the affordability of health care. It will:

Preserve our commitment to the elderly, individuals with disabilities, women, children and families as we make Medicare and Medicaid more efficient.

- Improve Medicare by offering new choices of high-quality health plans and delivery systems, and by providing new preventive benefits and a new respite care benefit for families coping with Alzheimer's Disease.
- Assure the financial integrity of the Medicare Hospital Insurance Trust Fund through 2011 without imposing substantial new costs on Medicare beneficiaries.
- Protect the federal guarantee of coverage under Medicaid, while providing new flexibility for states to administer their programs within a targeted growth rate for spending per beneficiary.
- Establish strong new protections against fraud and abuse in the health care system.
- Provide additional resources to states to provide home and community-based care for people with disabilities of all ages.

Increase the availability and affordability of private health care coverage for working Americans.

- Reform the insurance system to ensure that workers don't lose their insurance if they lose a job or change jobs, limit the use of pre-existing condition exclusions, and establish voluntary purchasing cooperatives so that small businesses can obtain more affordable health insurance coverage.
- Provide assistance for workers who are temporarily unemployed and need short-term financial support to help them keep health insurance coverage.
- Make health benefits more affordable for individuals who are self-employed by increasing the tax deductibility of health benefits.
- Simplify the administration of the health system so that fewer dollars are spent on overhead, and health professionals are freed from unnecessary paperwork.

## Preserving and Strengthening Medicare

Medicare provides health care benefits to 37 million elderly Americans and individuals with disabilities. The President's plan maintains the 30-year national commitment to this program and makes it more efficient.

The President's balanced budget proposal builds on the 1993 deficit reduction package, which strengthened the Medicare Hospital Insurance (Part A) Trust Fund, with additional Medicare reforms. It includes \$124 billion in savings over the next seven years and would assure the fiscal integrity of the Trust Fund through 2011, while imposing no new cost increases on Medicare beneficiaries.

Key elements of the President's Medicare proposal are:

- **Continued Expanded Choice of Plans Under Medicare:** The President's plan would retain a strong, traditional Medicare fee-for-service program while increasing choices of alternative health plans or delivery systems. It would:
  - Expand beneficiary choice among health plans and delivery system options that guarantee high quality care for reasonable costs, including preferred provider organizations (PPOs), provider networks, and point-of-service HMOs;
  - Provide beneficiaries with detailed information about the providers and health plan choices available in their area, thereby facilitating the enrollment process;
  - Improve Medicare's method for paying health plans and delivery systems;
  - Foster improvement in the quality of care provided by health plans; and
  - Enhance choice/portability through Medigap reforms.
- **A More Cost-Effective Medicare Program:** The \$124 billion in savings included in the President's plan is based on sound, responsible reforms that would make the program more efficient, constraining it to growth rates that are at or just below private sector per person growth rates.

These changes will protect the Medicare Hospital Insurance Part A Trust Fund and keep the Part B premium at 25 percent of program costs. The plan would:

- Significantly moderate the Republican Medicare cuts so that payments to hospitals, physicians, and other providers are reduced while ensuring that high quality health care providers continue to serve Medicare beneficiaries;
- Reform Medicare financing for graduate medical education and training provided by the nation's academic health centers and teaching hospitals;

- Create savings and structured reforms that assure that the Medicare Trust Fund will be sound through 2011 -- a stronger position than it has been in 18 out of the last 20 years.
- **An Improved Medicare Program:** The President's plan improves Medicare program. It would:
  - Invest limited resources to expand cost-effective preventive benefits, including coverage for mammography/ colorectal screening, preventive injections for pneumonia, influenza, and hepatitis B.
  - Establish a respite care for families of victims of Alzheimer's Disease;
  - Initiate a new funding pool for medical teaching and research institutions.

## **Protecting and Improving Medicaid**

Medicaid provides acute and long-term health care services to 36 million low-income women, children, families, older Americans, and individuals with disabilities. Nearly half of Medicaid beneficiaries are children but approximately two-thirds of Medicaid expenditures are for care for the elderly and individuals with disabilities.

The President's proposal maintains the 30-year collaboration with the states to guarantee coverage for needed health services while making Medicaid more effective and efficient. It would reduce federal Medicaid spending by \$54 billion over seven years.

Key elements of the President's Medicaid proposal are:

- **Guarantee of Coverage:** People currently eligible for Medicaid services would retain their Federal guarantee of health care coverage.
- **Cost Effectiveness:** To limit the growth in federal Medicaid expenditures, a per capita limit would be established to constrain the rate of increase in federal matching payments per beneficiary. These limits maintain the federal financial commitment to states in the event of an economic downturn that could require states to add beneficiaries. Federal payments for disproportionate share hospitals would also be tightened and states would have the flexibility to target these payments to a range of essential community providers, including federally qualified health centers and rural health centers. The 15 states with the largest number of undocumented persons would receive special grants, and the 10 states with the institutions that serve disproportionately large numbers of uncompensated care patients would also receive additional funds.

- **Unprecedented State Flexibility:** States would be given much greater flexibility to change how they deliver and pay for services, so that they can reduce costs, not coverage. For example, the Boren Amendment would be repealed. In addition, states would be authorized to implement managed care plans and provide home and community-based care without federal waivers.
- **Quality Protection:** Existing federal standards and enforcement for nursing homes and institutions for people with mental retardation and developmental disabilities would be maintained. Quality standards for managed care systems would be updated and enhanced.
- **Financial Protection:** Protections against impoverishment for spouses of nursing home residents would be retained as would the guarantee that Medicare premiums and cost-sharing be paid for by Medicaid.

## **Combating Fraud and Abuse**

The Clinton Administration stepped up efforts to combat fraud and abuse with remarkable results. Key to this success has been Operation Restore Trust -- a pilot program launched earlier this year in New York, Florida, Illinois, Texas, and California. The President's plan would take Operation Restore Trust nationwide.

The President's plan would also give law enforcement officials additional authorities and resources to investigate, prosecute, and sanction those who defraud federal health programs; ensure adequate and dependable sources of funds to support program integrity activities; and change reimbursement policies that inadvertently may have contributed to abuse and fraud.

## **Long-Term Care**

Frail elderly Americans and younger persons with disabilities frequently require home and community-based long-term care to assist them in carrying out the routine activities of daily life. The President's plan would improve access to such services in the following ways:

- **Home and Community-Based Care:** A new grant program to states would provide funding for home and community-based care and personal assistance services for individuals of all ages with disabilities.
- **Respite Care:** Family members of persons with Alzheimer's disease would be eligible for up to 32 hours of respite care each year under a new Medicare benefit.

## Protecting Working Americans

Today, a majority of working Americans receive their health care insurance coverage through their employer, but the security of that coverage often depends on economic conditions and on insurance rules that can exclude coverage for some people. There has been strong, bipartisan support for reform of the group health benefits market to preserve and protect the coverage of working Americans.

The President's plan includes the following insurance reforms and programs to protect workers:

- **Pre-existing Medical Conditions:** Insurers and group health plans would be restricted in how long they could exclude individuals from coverage because of pre-existing medical conditions. Insurers in the small group market would be required to sell coverage to small businesses regardless of the health status of the workers employed by those companies.
- **Enhanced Portability of Coverage:** Under the President's plan, "job lock" would be eliminated by ensuring that workers who change jobs don't lose their health care coverage.
- **Ensuring Coverage for Temporarily Uninsured Workers:** Grants would be made available to the States to provide for a six-month period of private health benefits for laid-off workers who lose their coverage when they lose their job and receive unemployment benefits.
- **Small Business Assistance:** Grants would be provided to states to help them create voluntary small group insurance purchasing cooperatives to encourage competition and affordability in the small group market. Upon request of the state, the Federal Employees Health Benefits Program could require its participating health plans that serve the small group market to make themselves available through purchasing cooperatives established by the state.
- **Tax Deduction for the Self-Employed:** Self-employed individuals, including farmers, would be allowed to deduct 50 percent of the cost of their health insurance premiums from their taxable income.

## Administrative Simplification and Security of Health Information

The health care system includes a tremendous amount of red tape and paperwork that often gets in the way of providing care to patients. The President remains committed to reducing these burdens. Standards would be adopted to simplify the use of electronic health information transactions. New federal standards would be developed to assure the security and privacy of individual medical information contained in electronically conducted health care transactions.

## **PRESIDENT'S MEDICARE PROPOSAL**

The Medicare savings and structural reforms included in the President's balanced budget proposal have been carefully designed to strengthen the Medicare Trust Fund, expand health plan options for beneficiaries and assure that Medicare benefits continue to be affordable for the 37 million elderly and people with disabilities the program serves.

**The Medicare Trust Fund is Strengthened through 2011.** The savings and structural changes assure the financial health of the Medicare Trust Fund through 2011 -- placing the Fund in a better position than it has been in 18 out of the last 20 years.

**Savings Achieved Without Any New Beneficiary Cost Increases or Arbitrarily Imposed Budget Caps.** The Administration's proposal has specific and scorable policy changes that assure program efficiency and produce \$124 billion in savings. This is achieved without undermining the structural integrity of the program, imposing new costs on beneficiaries, or arbitrarily capping the program's growth to an index that has nothing to do with health costs.

**The Cuts are Significantly Smaller than the Republican Conference Agreement.** The Administration proposes smaller cuts for all major categories of the Medicare program (i.e., beneficiaries, hospitals, physicians, home health care providers and nursing homes). The differences in beneficiary and hospital cuts are particularly significant. The Administration has \$42 billion less in beneficiary cuts and \$44 billion less in hospital cuts than the Republican conference agreement. (See attached charts.)

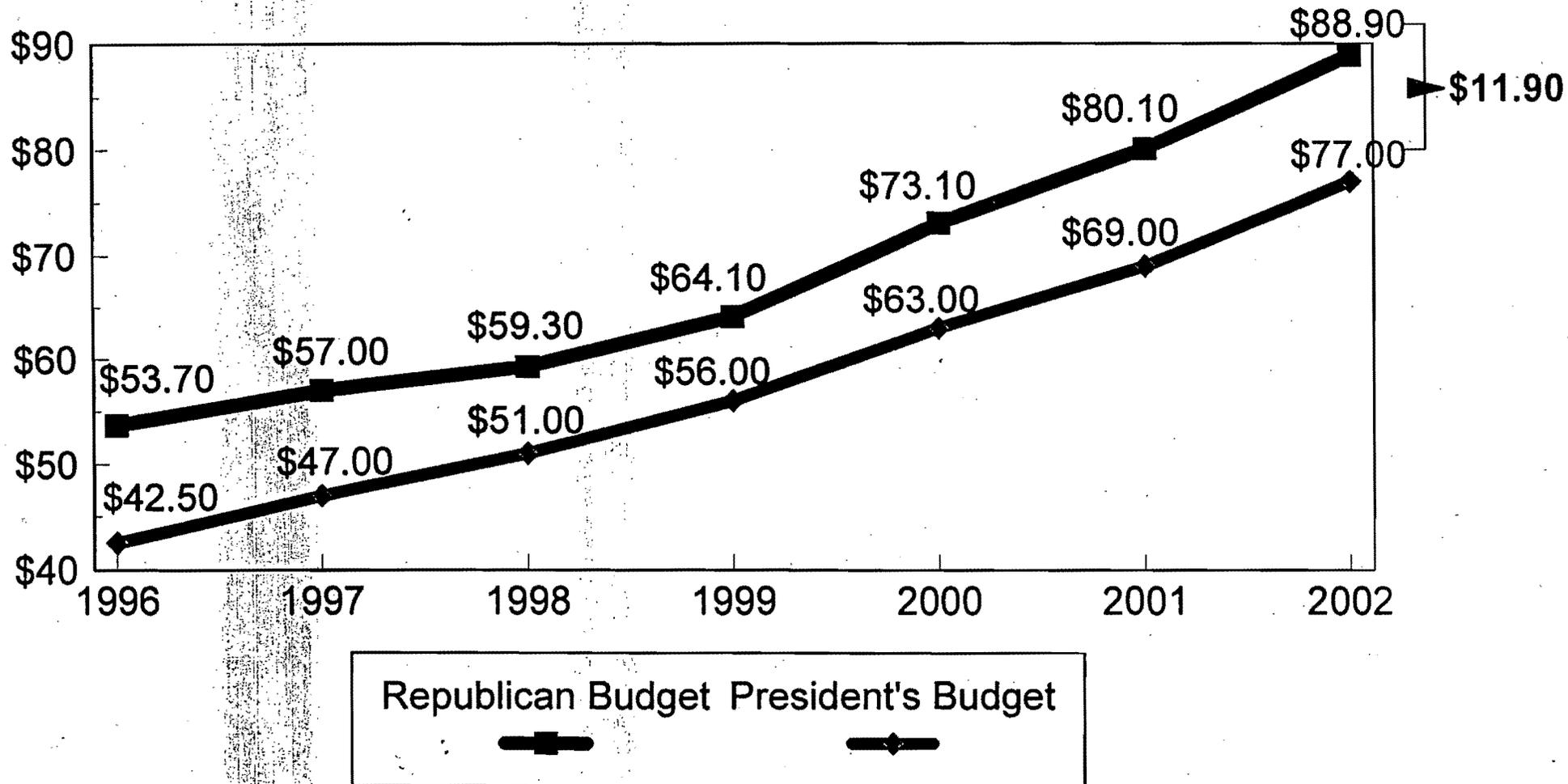
**The Reforms Hold the Medicare Per Beneficiary Program Growth Rate to Approximately that of the Private Sector.** On a per person level, the President's proposal holds the Medicare program to a growth rate that is slightly lower than the 7.1 percent per person private sector growth rate as estimated by the Congressional Budget Office. In contrast, the Republican Conference Medicare cuts would constrain Medicare growth per beneficiary to over 20 percent below the private sector per person growth rate. (See attached chart.)

**Republican Cuts Will Lead to Cost Shifting or Access and Quality Problems.** The Administration believes that cuts of the magnitude advocated by the Republicans would result in significant cost-shifting (\$84.7 billion according to the bipartisan National Leadership Coalition on Health Care) or reduced quality and access to needed health care providers. This is why the American Hospital Association has stated: "the reductions in the conference report will jeopardize the ability of hospitals and health systems to delivery quality care, not just to those who rely on Medicare and Medicaid, but to all Americans."

**Choices of Plans are Expanded Under Medicare in a Pragmatic, Responsible Way.** The President's plan retains a strong Medicare fee-for-service program and significantly increases choices of alternative health plans, including new managed care options (PPOs and HMOs with point of service options) as well as provider networks. In contrast, the Republican approach -- which includes Medical Savings Accounts and other options that tend to manage risk rather than manage costs -- will fragment the Medicare risk pool.

**Medicare is Improved by Expanding Preventive Programs,** including better mammography coverage, colorectal screening, and a new respite benefit for families of Alzheimer's patients.

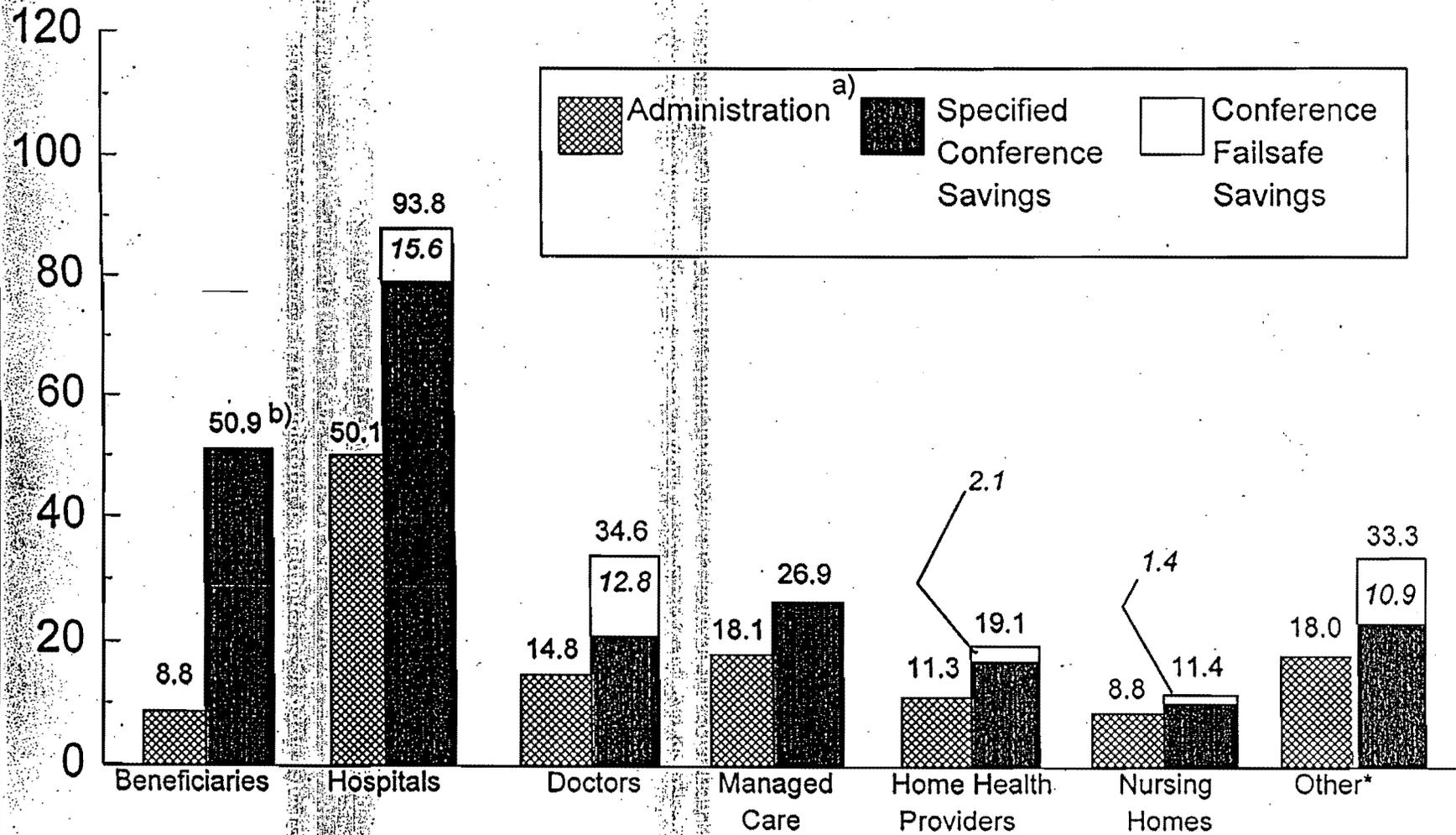
# Medicare Monthly Premiums



CBO estimates of Republican premiums, as published in the November 16 letter to Senate Domenici; HCFA's estimates of premiums under the President's proposal. SOURCE: US DHHS.

**Administration vs. Republican Conference Agreement Medicare Cuts By Category  
(7-yr. OMB and CBO Pricing, respectively)**

**Dollars in Billions**

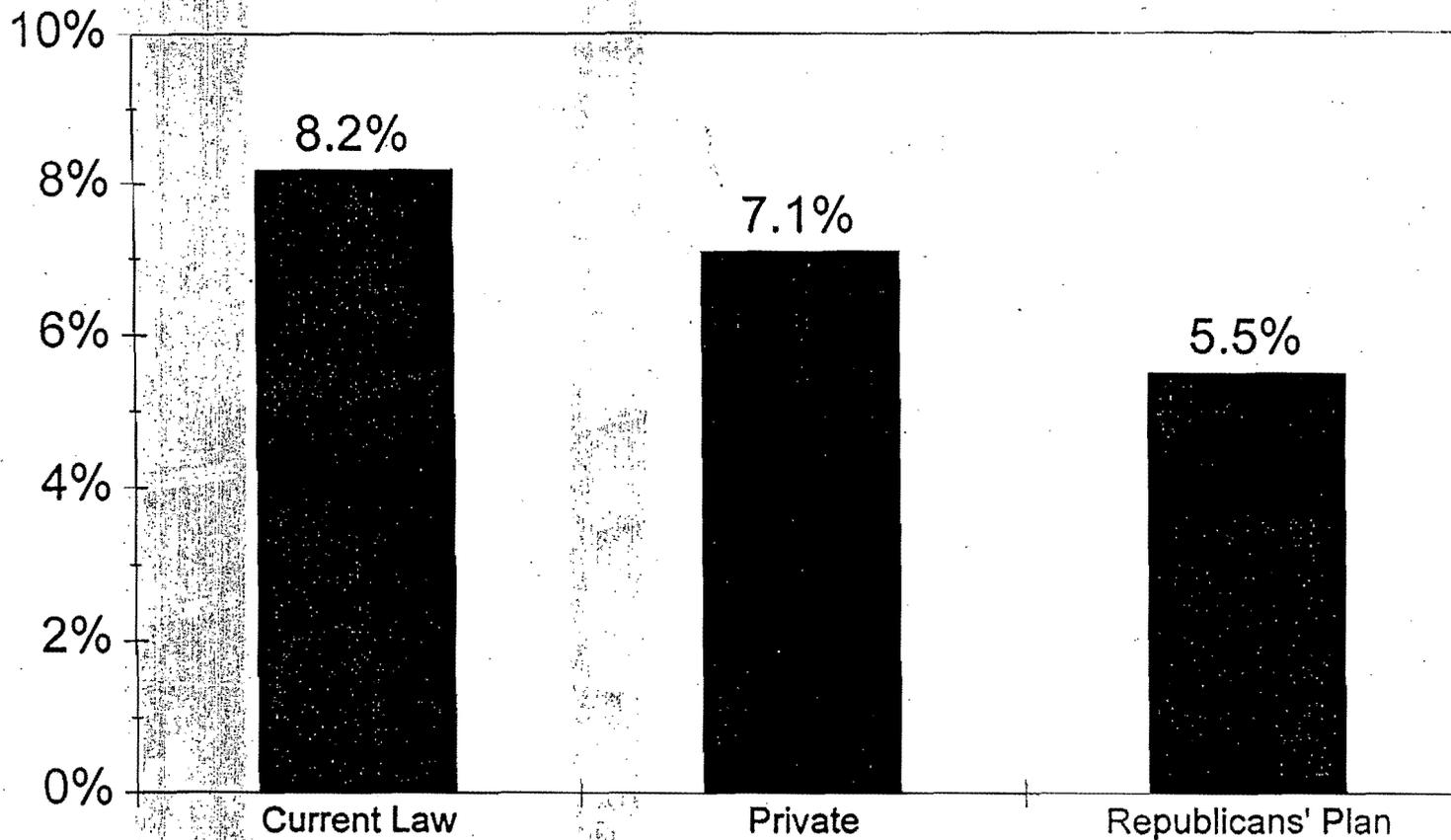


\* Other includes interactions, Medicare secondary payer, lab services, durable medical equipment, ambulatory surgical centers, fraud and abuse provisions, and centers of excellence.

a) Administration managed care savings include both direct managed care payment reductions and the indirect effect of fee for service cuts on managed care. All Conference managed care savings are direct because the link between fee for service expenditures and managed care payments is severed. Administration savings do not include \$5.3 billion cost of additional preventive benefits

b) The indirect reduction in Part B premiums due to failsafe spending reductions is reflected in the Conference Agreement "Beneficiaries" total.

# Comparison of Growth in Total Medicare Spending Per Beneficiary, 1996-2002



CBO baseline as of October 1995; CBO estimates of savings under the Conference Agreement, 11/16/95; Administration projections of beneficiaries. Administration estimates of private health spending per insured person, using CBO data. DHHS estimates of the President's proposed rate of growth in spending per beneficiary: 6.8%. Source: US DHHS

## The President's Medicaid Plan: Effect on States

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**Guarantees Coverage:** The President's plan ensures that the low-income elderly, nursing home residents, pregnant women, children, and people with disabilities continue to receive health coverage.

*The Republican plan would end guaranteed coverage for the 36 million Americans currently insured by Medicaid. By 2002, nearly 8 million children, elderly and people with disabilities could be without the health care coverage now provided by Medicaid.*

**Provides for Increased State Flexibility:** States are given significantly greater flexibility in the administration of their Medicaid programs. The President's plan is extremely responsive to the flexibility objectives put forth by the National Governor's Association in January of 1995. The Boren Amendment would be repealed. States would be permitted to establish managed care plans as well as home- and community-based care options without Federal waivers.

*While the Republican block grant would allow states to administer their program without virtually any national minimum standards, it comes at a cost -- a loss of over \$100 billion relative to the President's plan over seven years.*

**Controls Medicaid Spending without Putting States at Financial Risk:** The President proposes a "per capita cap". This policy limits spending without ending the Federal commitment to share in the risk of an economic downturn or other unexpected events that increase costs because of additional enrollment. The Federal government will match state spending up to a limit that is adjusted for enrollment. When spending growth per person increases at a rate higher than the proposed index, Federal payments are limited.

*The Republican plan ends the Federal role as a partner in states' health care spending for seniors, children and people with disabilities. States would be 100 percent at risk for unexpected increases in costs associated with recessions or an aging population.*

**Reduces Disproportionate Share Payments but Increases State Control:** The President's plan changes the current Disproportionate Share (DSH) program in two ways. First, Federal DSH payments are gradually reduced and then frozen at their levels in 1998 for subsequent years. Supplemental pools for states with high numbers of undocumented persons and with high levels of uncompensated care and Medicaid shortfalls, along with a transitional funding pool, will ease the impact. Second, states are given more latitude in choosing which providers are eligible for DSH payments, and the Secretary will develop standards for appropriate allocation among providers. States will submit annual reports to the Secretary on who gets the funds, how much the providers receive, and how the funding is easing the problems in their states.

*The Republicans end the DSH program, increasing the already-severe financing problems of inner city, public and rural hospitals which care for uninsured and large numbers of Medicaid patients.*

## Why States Benefit from the President's Plan:

- **Federal Spending Reductions Are Not Excessive:** The President's plan reduces Federal Medicaid spending by \$54 billion over seven years -- a responsible reduction that can be managed by states.

*The Republicans' plan takes \$163 billion in Federal Medicaid funding from the states, leaving them with the same health care problems but less support in addressing them. In fact, the \$163 billion cut translates into a per recipient growth rate that is 70 percent below the private sector per person growth rate as estimated by the Congressional Budget Office. Since the cut is too large to be absorbed through efficiency alone, states will be forced to shift the costs onto providers, reduce coverage for their citizens or increase their state spending.*

- **All States Fare Better Under the President's Plan than the Republican Plan:** Every single state gets more Federal funding under the President's plan than under the Republican plan. More importantly, Federal spending to states would increase if states were faced with a recession or some other unforeseen event that causes enrollment to increase.

*The Republicans cannot reduce Federal spending by \$163 billion without hurting states -- and hurting some states more than others. In fact, while most states get similar percentage reductions under the President's plan, the Republican plan takes up to 45 percent from some states and actually gives money to others.*

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# THE FUTURE OF MEDICAID

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December 1995

## MEDICAID AND CHILDREN

Medicaid provides health care coverage to 1 in 4 American children and finances 1 in 3 births. Medicaid pays for a broad range of services including immunizations, well-child care, prescription drugs, hospitalization, as well as long-term care for disabled children.

### Key Facts:

- ◆ **In 1993, 16.6 million children – one-quarter of all children under age 18 – received Medicaid coverage.**
  - Medicaid plays an important role for young children, covering 37 percent of infants (1.4 million), and 32 percent of preschoolers (6.4 million). Medicaid also provides coverage to 5.8 million school-aged children (22 percent) and 2.9 million teenagers (16 percent) (Figure 1).
  - Medicaid covers two-thirds of all poor children (10.7 million) and 27 percent of children with incomes between 100 and 199 percent of the federal poverty level (4.1 million).
- ◆ **Expansions in Medicaid eligibility have broadened Medicaid's reach to low-income children in recent years and stemmed the growth in the number of uninsured children.**
  - Prior to 1986, most children were covered by Medicaid because they received cash assistance through AFDC (Aid to Families with Dependent Children). Some children were also eligible for coverage because they were disabled and eligible for SSI or were "medically needy."
  - Congress began extending Medicaid eligibility to other low-income children and pregnant women in 1986. States are currently required to cover pregnant women and children up to age 6 with family incomes below 133 percent of the federal poverty level. Coverage for poor children born after September 30, 1983 is being phased in until all poor children under age 19 are eligible in the year 2002 (Figure 2).
  - Expansions in Medicaid coverage of low-income children have offset reductions in private employer-based coverage of children and expanded coverage of children in working poor families (Figure 3). In 1993, 53 percent of children on Medicaid had a full- or part-time working parent.
- ◆ **Federal guidelines assure that Medicaid provides coverage for a comprehensive set of services with nominal or no cost-sharing for children. Access to these services is important because poor children experience more health problems than more affluent children.**
  - Children with Medicaid are eligible to receive physician and outpatient services, prescription drugs, inpatient hospital care, and long-term care services.
  - Medicaid coverage also entitles children to receive early and periodic screening, diagnostic, and treatment (EPSDT) services. Screening services include a comprehensive health and developmental history and physical exam, immunizations, laboratory tests including blood lead levels, and health education. All children who are found to have conditions requiring further attention must be referred for treatment.
- ◆ **Children represent half of the 32 million Medicaid beneficiaries, but account for only 15 percent of overall Medicaid spending (Figure 4).**
  - In 1993, the average cost per child covered by Medicaid was about \$1,200 compared to nearly \$8,000 per disabled person and nearly \$9,300 per elderly person with Medicaid coverage. This is because most elderly and disabled persons have more costly acute and long-term care costs than children.
  - Although children on average cost less to care for than older Medicaid beneficiaries, Medicaid covers about 800,000 children with mental or physical disabilities with more costly health needs.

## **Proposed Legislative Changes to Medicaid Affecting Children**

### **◆ Eligibility**

- The Conference Bill would transform Medicaid from an entitlement program to "MediGrant," a block grant to states to provide state determined services to pregnant women and children under age 13 with incomes below 100 percent of the federal poverty level.

### **◆ Benefit Standards and Cost-Sharing**

- States would have total flexibility in determining the benefit package for Medicaid beneficiaries. With the exception of child immunization and family planning for those deemed eligible, the bill does not specify minimum benefit standards for children, including those with special health care needs.
- Mandatory provision of EPSDT services would be repealed by the bill and pregnant women would no longer be entitled to pregnancy-related services.
- States would be able to require beneficiaries to pay premiums, deductibles, or cost-sharing. However, for families with incomes below 100 percent of poverty that include a pregnant woman or child, states would not be allowed to impose premiums and would be permitted only nominal cost-sharing for services other than preventive or primary care.

### **◆ Program Spending**

- Projected federal spending on Medicaid would be capped and converted to a block grant. Federal payments would be reduced by \$163 billion by the year 2002.
- Provider payment requirements would be eliminated, allowing states to set payment levels to physicians, hospitals, and nursing homes.

## **Policy Issues**

- ◆ Medicaid eligibility for children is currently set by federal guidelines with some state optional coverage of nonpoor children and pregnant women. What are the implications of broad state flexibility in determining eligibility for services?
- ◆ Federal law currently requires that Medicaid beneficiaries all receive a minimum benefit package and that children receive a comprehensive set of services under the EPSDT program. What are the implications of state-established standards for the amount, scope, and duration of benefits to children and pregnant women?
- ◆ Federal support of Medicaid has risen as the number of beneficiaries and the cost of medical care has grown. What is the impact of reduced federal funding in the form of a fixed block grant on support of services to children? Will the shift to managed care be affected by inadequate capitation rates and low provider payment rates?
- ◆ The recent Medicaid eligibility expansions have increased Medicaid coverage of low-income children with working parents. What will happen to coverage of nonpoor low-income children and pregnant women who have been covered as a result of the Medicaid expansions?
- ◆ Cost-sharing has been found to reduce necessary as well as unnecessary use of services among low-income populations. What will be the impact of cost-sharing on the ability of children and pregnant women to access needed health care services?

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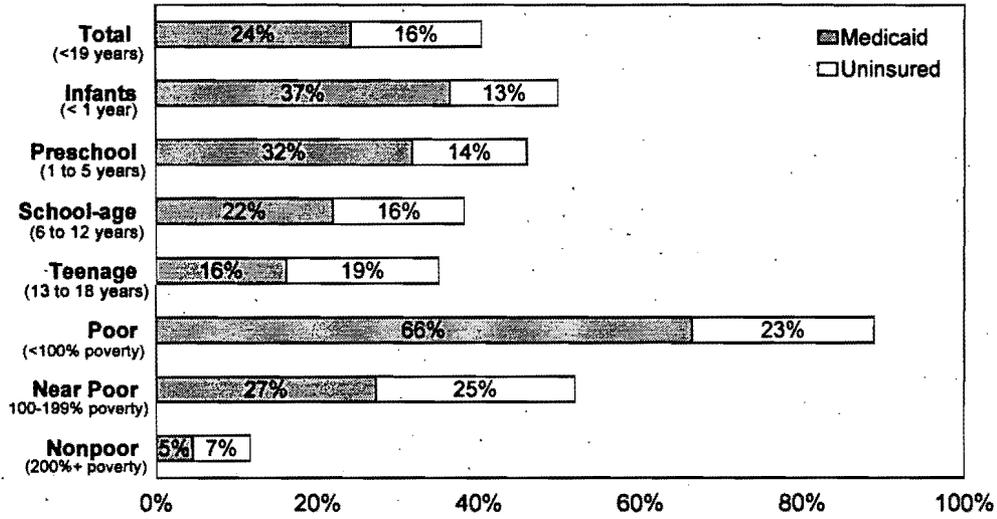
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Figure 1

## Health Insurance Coverage of Children, by Age and Poverty Level, 1993

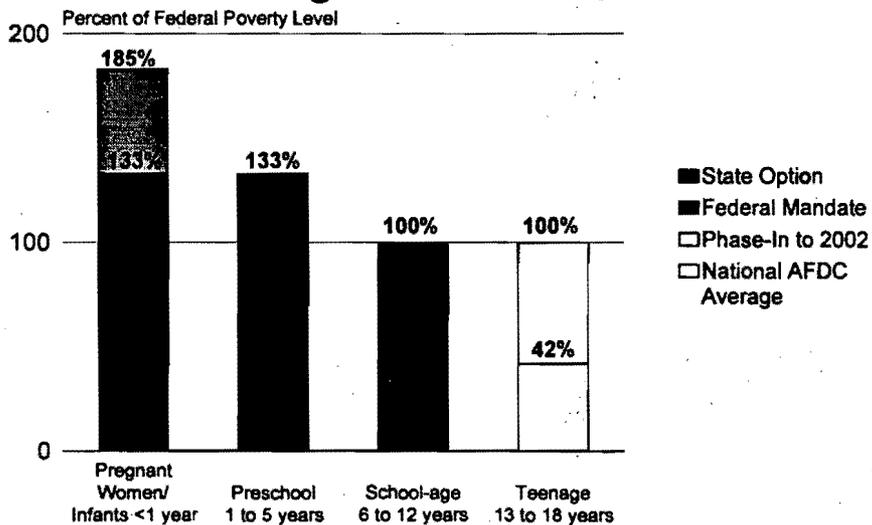


Source: Employee Benefits Research Institute, 1995.

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Figure 2

## Medicaid Eligibility Standards for Children and Pregnant Women, 1995

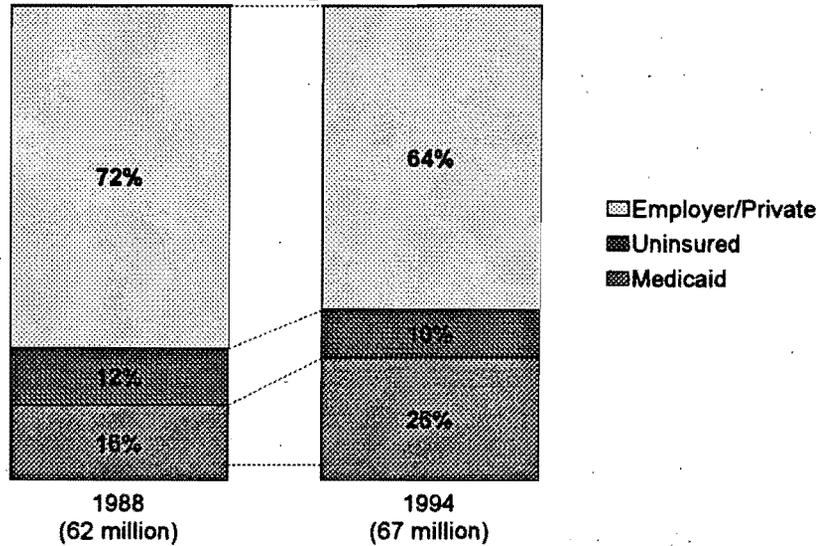


Note: Some States have increased eligibility through Sec. 1115 waivers or Sec. 1902 (r)(2)

Source: National Governors Association, 1995

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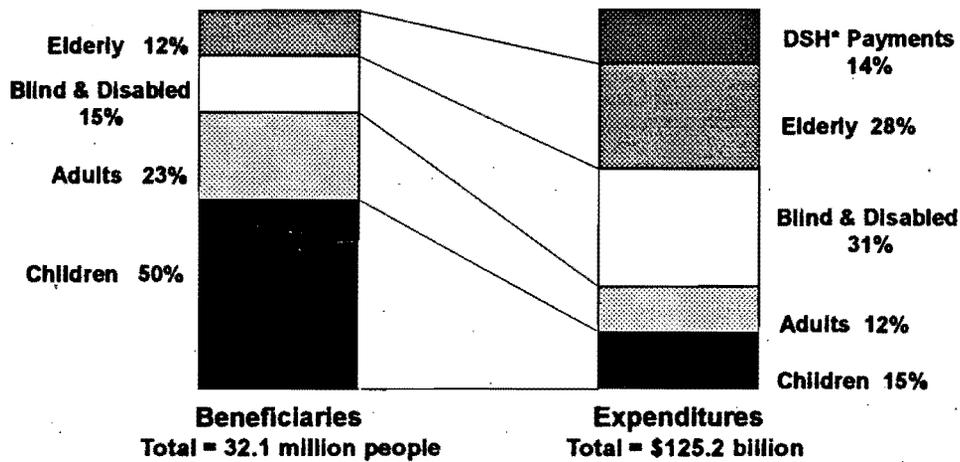
**Figure 3**  
**Changes in Health Insurance Coverage of Children Ages 0-17, 1988-1994**



Source: The Urban Institute estimates based on 1989 and 1993 CPS, 1994

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**Figure 4**  
**Medicaid Beneficiaries and Expenditures by Enrollment Group, 1993**



\* Disproportionate share hospital (DSH) payments for hospitals with a high volume of low-income patients.

Note: Data exclude Arizona and U.S. Territories and administrative costs.  
 SOURCE: Urban Institute analysis of HCFA data, 1994.

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**THE IMPACT OF THE "MEDIGRANT" PLAN  
ON FEDERAL PAYMENTS TO STATES**

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The Kaiser Commission on the Future of Medicaid

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