



U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
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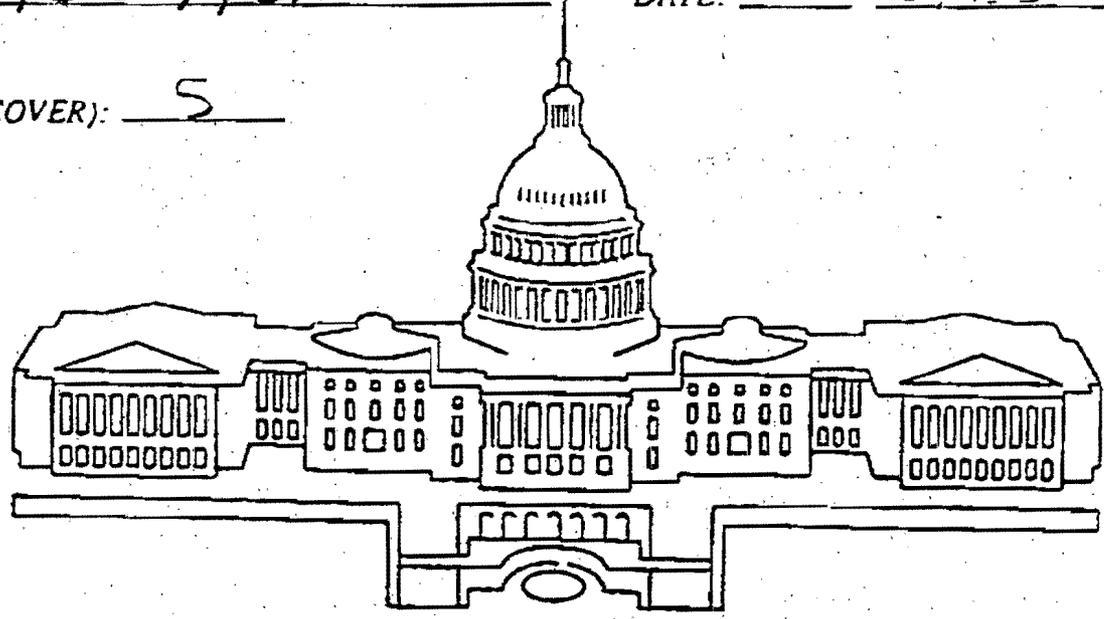
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REMARKS:



Bill Archer

104TH CONGRESS
1ST SESSION

H. R. 1590

IN THE HOUSE OF REPRESENTATIVES

and Mr. Thomas
Mr. ARCHER introduced the following bill; which was referred to the
Committee on _____

A BILL

To require the Trustees of the medicare trust funds to report recommendations on resolving projected financial imbalance in medicare trust funds.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. TRUSTEES' CONCLUSIONS REGARDING FINAN-**
4 **CIAL STATUS OF MEDICARE TRUST FUNDS.**

5 (a) **HI TRUST FUND.**—The 1995 annual report of
6 the Board of Trustees of the Federal Hospital Insurance
7 Trust Fund, submitted on April 3, 1995, contains the fol-
8 lowing conclusions respecting the financial status of such
9 Trust Fund:

1 (1) Under the Trustees' intermediate assump-
2 tions, the present financing schedule for the hospital
3 insurance program is sufficient to ensure the pay-
4 ment of benefits only over the next 7 years.

5 (2) Under present law, hospital insurance pro-
6 gram costs are expected to far exceed revenues over
7 the 75-year long-range period under any reasonable
8 set of assumptions.

9 (3) As a result, the hospital insurance program
10 is severely out of financial balance and the Trustees
11 believe that the Congress must take timely action to
12 establish long-term financial stability for the pro-
13 gram.

14 (b) SMI TRUST FUND.—The 1995 annual report of
15 the Board of Trustees of the Federal Supplementary Med-
16 ical Insurance Trust Fund, submitted on April 3, 1995,
17 contains the following conclusions respecting the financial
18 status of such Trust Fund:

19 (1) Although the supplementary medical insur-
20 ance program is currently actuarially sound, the
21 Trustees note with great concern the past and pro-
22 jected rapid growth in the cost of the program.

23 (2) In spite of the evidence of somewhat slower
24 growth rates in the recent past, overall, the past
25 growth rates have been rapid, and the future growth

1 rates are projected to increase above those of the re-
2 cent past.

3 (3) Growth rates have been so rapid that out-
4 lays of the program have increased 58 percent in ag-
5 gregate and 40 percent per enrollee in the last 5
6 years.

7 (4) For the same time period, the program
8 grew 19 percent faster than the economy despite re-
9 cent efforts to control the costs of the program.

10 SEC. 2. RECOMMENDATIONS ON RESOLVING PROJECTED
11 FINANCIAL IMBALANCE IN MEDICARE TRUST
12 FUNDS.

13 (a) REPORT.—Not later than June 30, 1995, the
14 Board of Trustees of the Federal Hospital Insurance
15 Trust Fund and the Board of Trustees of the Federal
16 Supplementary Medical Insurance Trust Fund shall sub-
17 mit to the Congress recommendations for specific program
18 legislation designed solely—

19 (1) to control medicare hospital insurance pro-
20 gram costs and to address the projected financial
21 imbalance in the Federal Hospital Insurance Trust
22 Fund in both the short-range and long-range; and

23 (2) to more effectively control medicare supple-
24 mentary medical insurance costs.

1 **(b) USE OF INTERMEDIATE ASSUMPTIONS.—The**
2 **Boards of Trustees shall use the intermediate assumptions**
3 **described in the 1995 annual reports of such Boards in**
4 **making recommendations under subsection (a).**

**REPUBLICANS BREAK CONTRACT:
MEDICARE CUTS FOR SENIORS AND TAX HIKES FOR WORKING FAMILIES
TO PAY FOR TAX CUTS FOR THE WEALTHY**

Republicans have repeatedly promised that they could provide a huge tax cut targeted at the wealthy, balance the budget by 2002--and not hurt the elderly or raise taxes on working families. Their budgets show that these were false promises. Republicans have broken their contract with historically severe cuts in Medicare and tax hikes for working families in order to finance their tax break for the wealthy.

REPUBLICANS ARE MAKING THE LARGEST MEDICARE CUT IN HISTORY TO PAY FOR THEIR TAX CUT AND CAMPAIGN PROMISES. Barely a week ago, Speaker Gingrich said that Medicare would not be a part of the Republican budget cuts. He could not have been more wrong. Medicare takes the largest single cut in the Republican budget. By their accounting, nearly 25 cents out of every dollar that Republicans cut is from Medicare. The cut is three times larger than the largest previous Medicare cut in history.

THEIR MEDICARE CUT IS ABOUT PAYING FOR TAX CUTS AND HITTING ARBITRARY DEFICIT TARGETS--NOT ABOUT HEALTH CARE REFORM. The proposed Medicare cuts of \$250 billion to \$300 billion are needed to make room for most--but not all--of a \$345 billion tax cut that provides a tax break of over \$20,000 for the wealthiest 1 percent. Speaker Gingrich and Majority Leader Dole have rejected the White House's call to renounce tax breaks for the wealthy; instead, Speaker Gingrich calls the Contract tax cuts his "crown jewel," while Senate Majority Leader Dole and Senator Gramm have insisted they will make room for the tax cut. However the tax cuts are officially paid for, the fact remains that the **entire Medicare cut would be totally unnecessary if Republicans did not need to pay for their tax cuts.**

WHEN IT COMES TO HEALTH CARE, REPUBLICANS SINGLE OUT SENIORS FOR PAIN--CUTTING GROWTH PER PERSON IN THEIR MEDICARE BELOW GROWTH IN PRIVATE HEALTH CARE. Republicans claim that they are just slowing the "exploding" rate of growth in Medicare. In fact, the cost *per person* in Medicare is about the same as the private sector, even though Medicare deals with a population more prone to have health problems. The Republican approach ignores health care costs generally, and simply cuts the average growth rate for a Medicare recipient far below that for other Americans not on Medicare. *Medicare was designed to provide health insurance for senior citizens, not get turned into a second-class citizen program in order to meet arbitrary campaign promises.*

BY 2002, REPUBLICAN CUTS WOULD INCREASE OUT-OF-POCKET COSTS BY \$900 AND DEVASTATE RURAL HOSPITALS. If cuts are distributed evenly between providers and beneficiaries, they represent a \$900 increase in out-of-pocket costs per beneficiary. That is equivalent to eliminating 40%-50% of the Social Security cost-of-living allowances for each Medicare beneficiary between now and 2002. As reimbursement rates decline, many rural hospitals that rely on Medicare would have to close down.

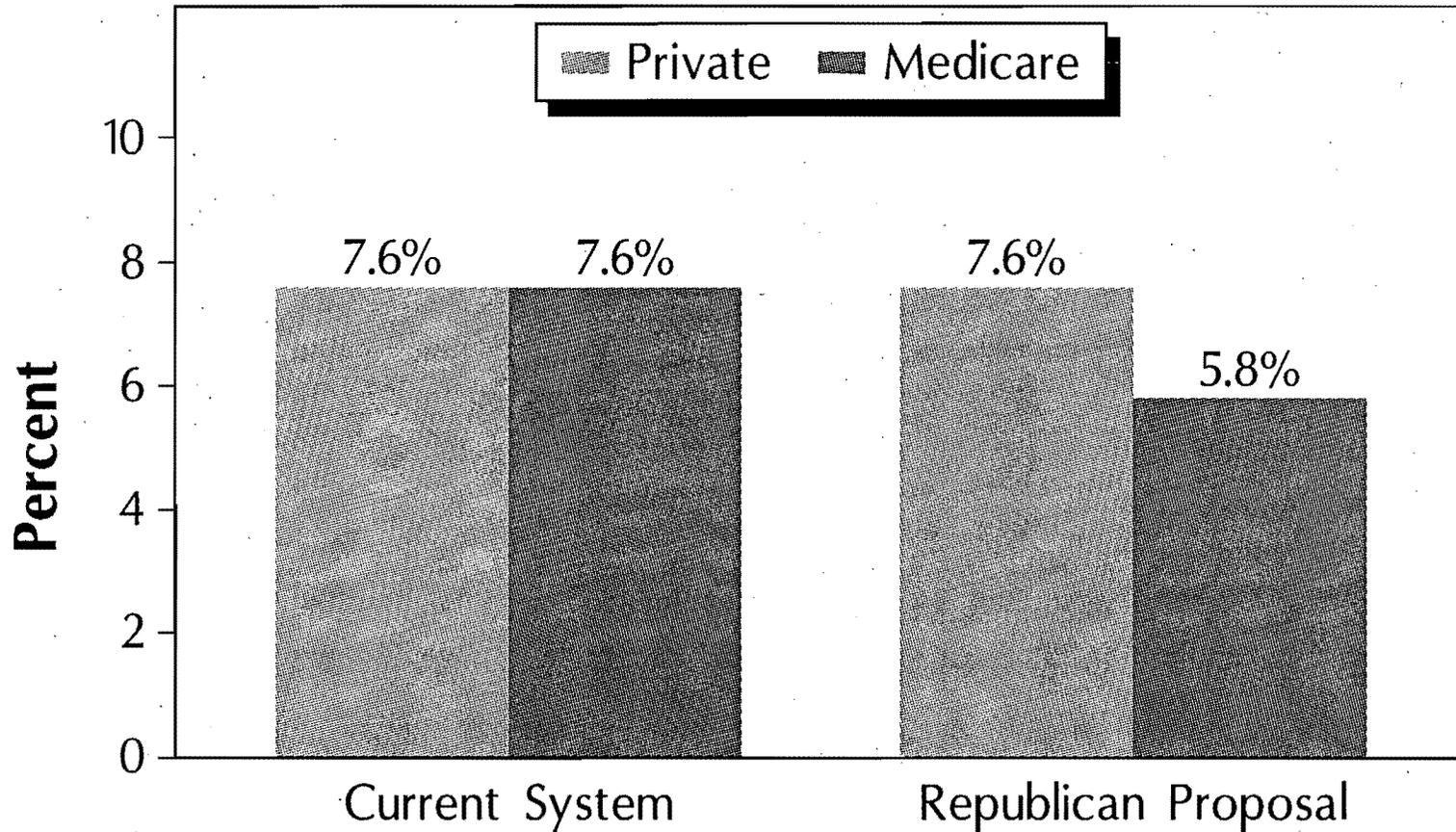
REPUBLICAN MEDICAID CUTS WOULD DRASTICALLY RAISE LONG-TERM CARE COSTS FOR WORKING FAMILIES, AND FORCE STATES TO CUT OFF COVERAGE FOR 5 to 7 MILLION CHILDREN AND 800,000 to 1 MILLION ELDERLY AND DISABLED AMERICANS. The House and Senate budgets include a \$160 billion cut in Medicaid. They would limit growth to 4% per year—even though Medicaid's beneficiary growth alone is nearly that high. As a result, millions of Americans will be cut off while the costs of long-term care drastically increase. Two-thirds of Medicaid funds are spent on services for elderly and disabled Americans; without Medicaid, working families with a parent or spouse who needs long-term care would face nursing home bills averaging \$38,000 per year.

REPUBLICAN MANAGED CARE PROPOSALS WILL NOT LEAD TO SIGNIFICANT SAVINGS UNLESS THEY CUT BENEFITS AND COERCE SENIORS. There is no evidence that simply shifting to managed care can achieve significant savings among the populations that Medicare and Medicaid overwhelmingly serve—the elderly and disabled. Republican voucher proposals would overspend on younger, healthier seniors, while achieving limited savings only by dramatically raising costs, cutting benefits, and limiting choice for the seniors who need Medicare and Medicaid most.

WHILE CUTTING TAXES FOR THE WEALTHY, REPUBLICANS ALSO RAISE TAXES FOR 12 MILLION POOR WORKERS AND THEIR FAMILIES BY SLASHING THE EARNED INCOME TAX CREDIT. The Earned Income Tax Credit provides a tax cut averaging nearly \$1,400 per year for over 21 million workers and their families earning up to \$28,500. Senate Republicans have proposed a \$21 billion cut in the EITC that will raise taxes by an average of \$235 for 12 million of these workers and their families. Thus, 12 million low-income working families will pay \$235 more under the Republican budget, while the top 1% will pay \$20,000 less under the Contract's tax cuts.

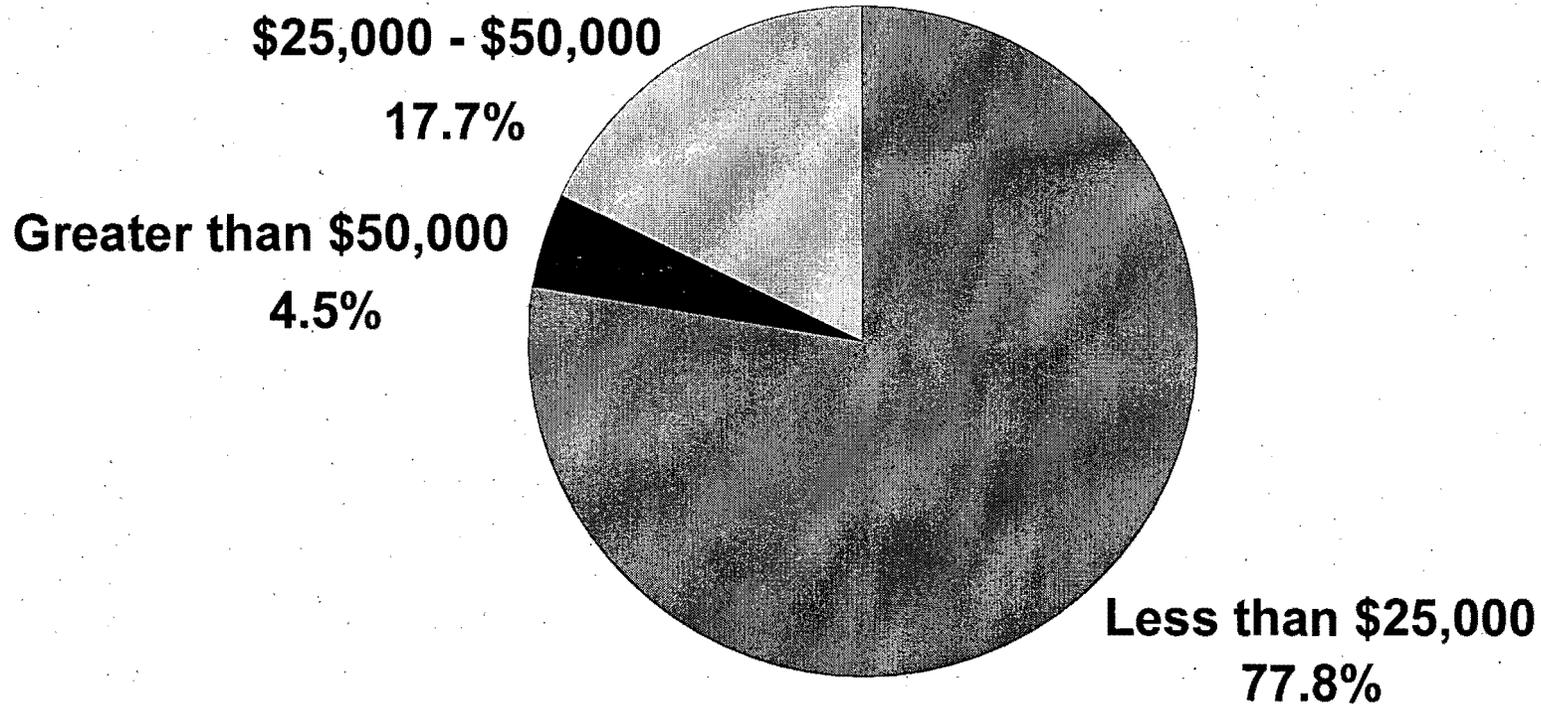
Per Capita Growth Rates

Private and Medicare, 1996-2002



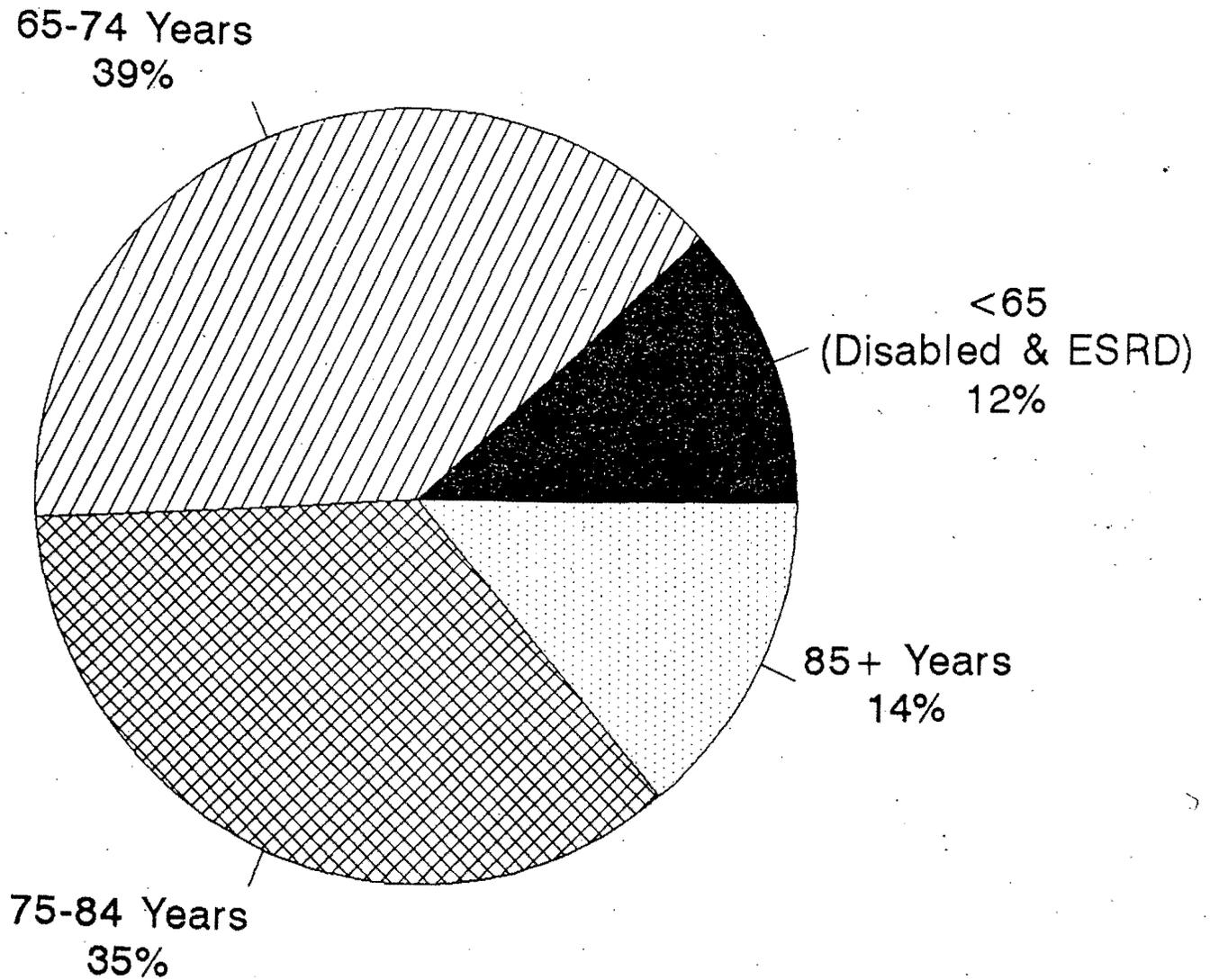
SOURCE: Administration baseline, calendar years

Medicare Beneficiaries' Income Distribution in 1992



HCFA/OAct: Medicare Current Beneficiary Survey

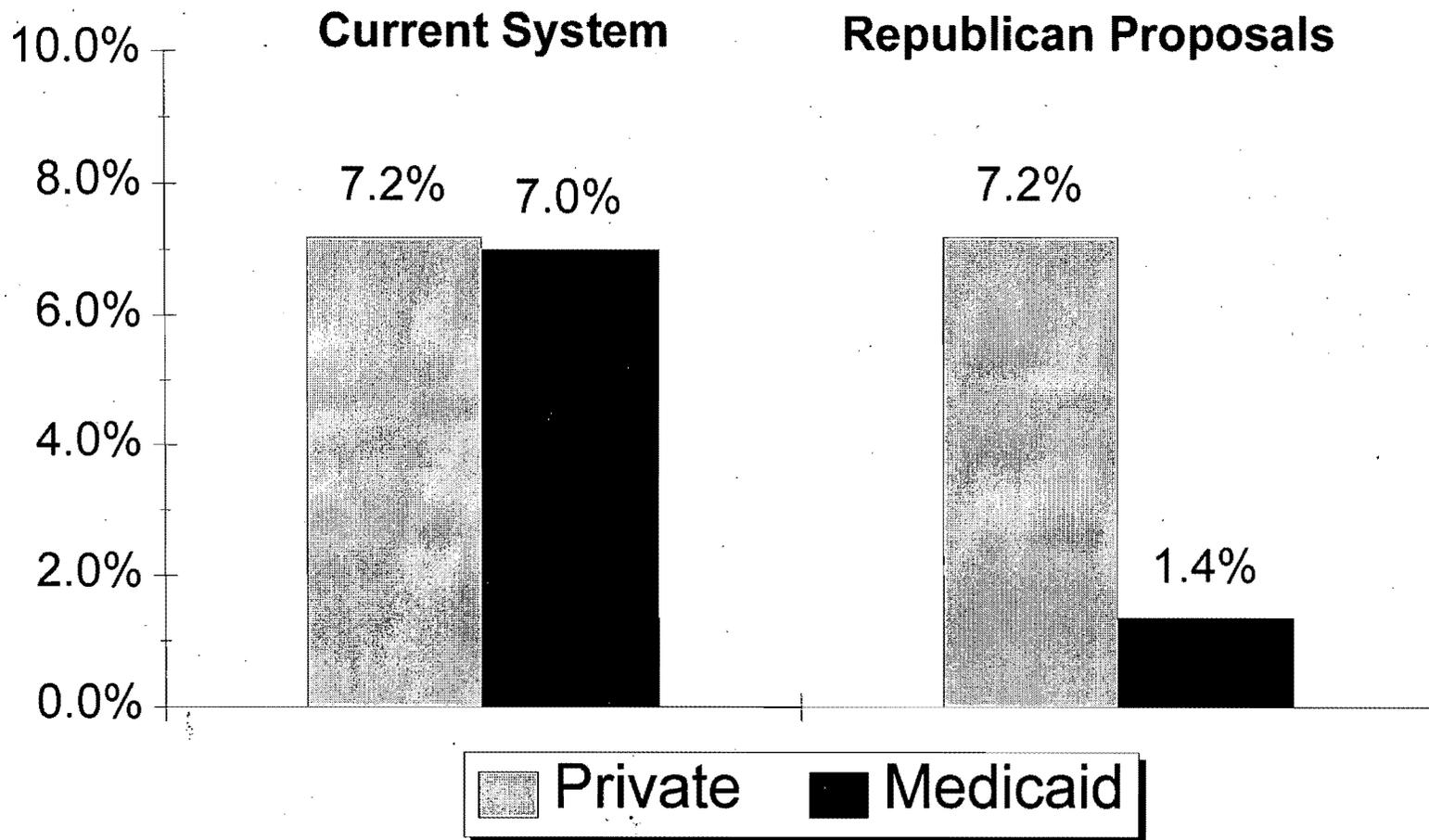
Distribution of Medicare Program Payments, 1992



Total Payments = \$120.7 Billion

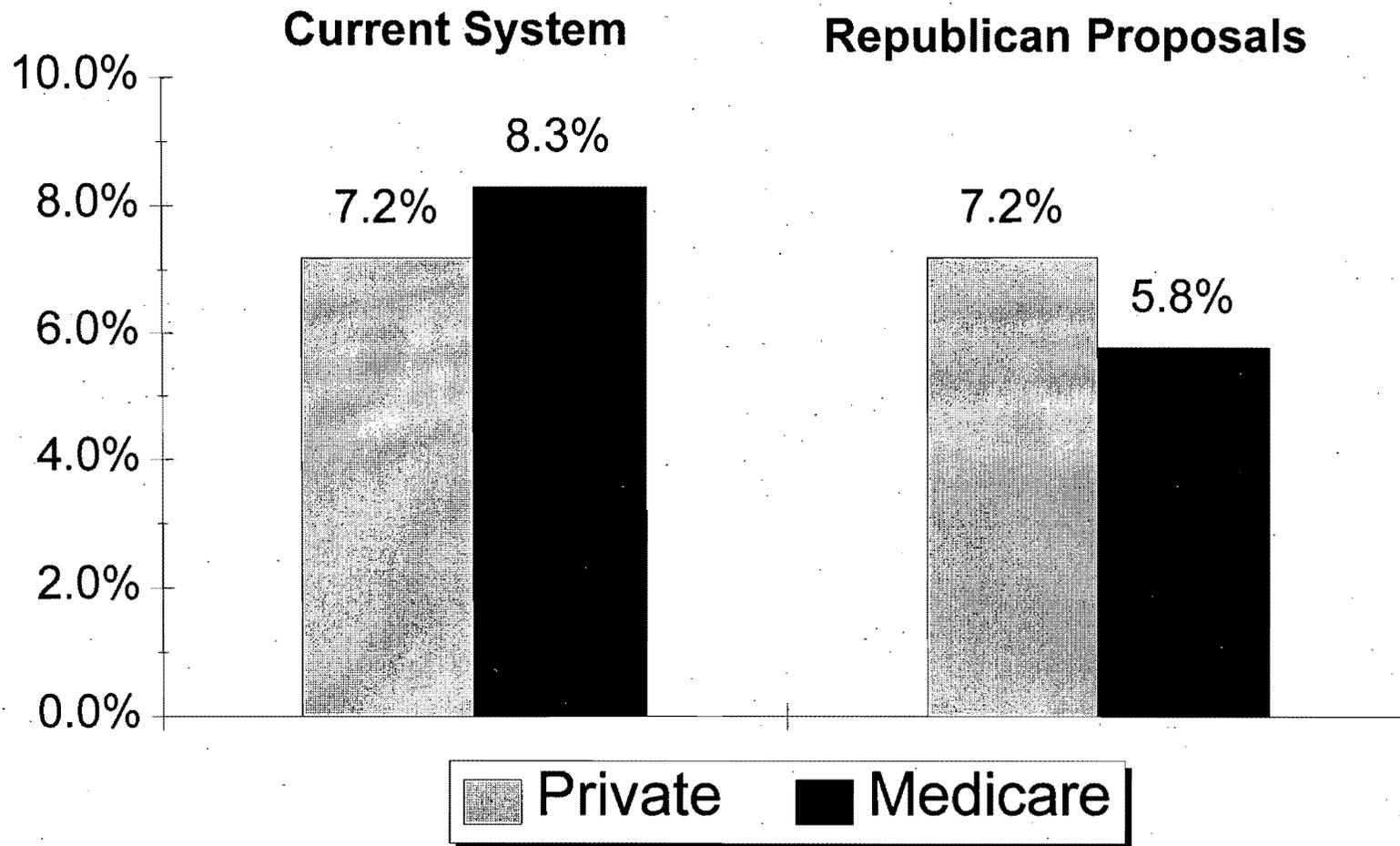
Per Capita Growth Rates

Private & Medicaid, 1996 - 2002



CBO Baseline, Calendar Years

Per Capita Growth Rates Private & Medicare, 1996 - 2002



CBO Baseline, Calendar Years

DRAFT

Talking Points

on Republican Budget Proposals:

"A Broken Contract with American Families and Their Parents"

May 10, 1995

INTRODUCTION (Leon Panetta):

- As you all know, Republicans made two big promises.
- They promised to reach a balanced budget (1) without cuts that would hurt people and (2) without a tax increase.
- Now, they have broken both promises.

-- Promise #1, in terms of cuts that will hurt people:

- The strongest evidence of the severe pain they would impose are their deep cuts in Medicare and Medicaid.
- They would cut discretionary programs -- from education to -- an average 30 percent across the board. They also have announced proposals to terminate specific programs, such as Americorps, that are important investments in the future.
- To find the remaining savings, Republicans also plan to make deep cuts in student loans, farm programs,

-- Promise #2 in terms of tax increases.

- Republicans are proposing to raise taxes on working families.
- Why are they doing all this?

-- They want to finance a tax cut for the wealthy at the expense of average families.

- House Republicans have adopted a huge tax cut as part of their budget program.
- House Speaker Newt Gingrich has called the tax cut "the crown jewel of the Republican contract."
- Senate Republican leaders -- Bob Dole, Trent Lott, and others -- and Sen. Phil Gramm are

committed to a tax cut and say they will push for one on the Senate floor.

- We believe that there is a right way, and a wrong way, to do deficit reduction.

-- In 1993, on our own, we did it the right way:

- We reduced the deficit by cutting unnecessary programs, but also invested in programs that will help working families build a more prosperous future.

-- Now, they want to do it the wrong way:

- They want to cut programs for working families and their parents, in order to fund a tax cut for the wealthy.

Medicare and the Budget (Alice Rivlin)

- House Speaker Newt Gingrich wants to treat Medicare apart from the budget, but that statement is meaningless and the promise is a lie.

- Late last month, he said,

"What we want to do is create an environment over the next three or four months where, standing by itself, there is a bill to save Medicare. That bill moves focused on Medicare. It has Medicare-related ideas. It's not tied up in the budget. It's not tied into getting to balance by 2002."

- Medicare is a federal program just like any other.
- And Republican plans rely heavily on it to get to balance.

-- More than half of the savings that Domenici claims comes from cutting Medicare and Medicaid.

-- In fact, his Medicare cut is the largest single cut directed at any one program.

-- Republicans need to cut Medicare to pay for their tax cut for the wealthy.

Limits to Medicare/Medicaid Growth Rates (Alice Rivlin):

- Republicans say they want merely to limit the rate of growth in Medicare and Medicaid -- but these are real cuts, with real consequences.

-- "Limits" are actually cuts in services and increases in costs for the elderly, disabled, and low-income families with children.

-- These are cuts that will affect your own grandparents, whether they now get Medicare or they eventually need the long-term care provided by Medicaid.

• Medicare and Medicaid spending are rising 9-10 percent a year because of increases in the numbers of beneficiaries and the costs of medical services, including improvements in technology and care.

-- While that may seem high, on a per-person basis, Medicare spending is projected to grow at about the same rate as private health insurance costs.

• Thus, limiting the rate of growth of total (not per-person) Medicare and Medicaid spending to 7.1 percent, as Sen. Domenici proposes, will have real impacts on services and benefits for elderly and low-income Americans.

-- It could mean limits on the numbers of elderly or low-income individuals served.

-- It could mean limits on the quality and quantity of services that the programs provide.

-- It could mean that the elderly and low-income have to pay more, themselves, for some of the services that they now receive.

-- These "savings" could be passed on to businesses and individuals who buy health insurance and health care services.

• In short, reducing Medicare's rate of growth would hold it below the growth in the private sector -- creating a growing "quality gap" between care for seniors and health services for others.

Medicare/Medicaid cuts (Donna Shalala):

Medicare Cuts:

• If distributed evenly between providers and beneficiaries, the Republican Medicare cuts could force beneficiaries to pay:

-- between \$815 and \$980 more in out-of-pocket costs in 2002; and

-- between \$3,100 and \$3,700 more in out-of-pocket costs over 7 years.

• Republican Medicare cuts, in effect, amount to cuts in Social Security:

-- By 2002, the typical Medicare beneficiary would see 40-50 percent of his or her Social Security COLA eaten up by Medicare cost sharing and premiums.

-- About 2 million beneficiaries would have 100 percent or more of the COLAs eaten up by cost sharing and premiums.

Medicaid Cuts:

• Cuts in Medicaid are especially outrageous:

-- Medicaid provides health insurance for the most vulnerable Americans.

- 2/3 of Medicaid costs go to the indigent elderly and disabled, who have no other available resources.

-- Medicaid is also a vital protection for middle-income Americans.

- Working families with a parent who needs long-term care would face nursing home bills of an average of \$38,000 a year without Medicaid.

- Working couples who may need long-term care after retirement rely on Medicaid to get such care.

-- If distributed evenly between eliminating eligibility for the elderly and disabled, eliminating eligibility for children, cutting services, and cutting provider payments, Republican cuts in 2002 alone would mean:

- 5-7 million children would lose eligibility;
- 800,000 to 1 million elderly and disabled would lose coverage; and
- Tens of millions of Americans would lose benefits of many forms.

Managed Care, Vouchers, and Savings (Donna Shalala):

Managed Care:

- Giving Medicare/Medicaid beneficiaries a "choice" of moving into managed care will do nothing to control costs.

- The "choice" option will play out in the following way:

- The Medicare population includes people with some of the most serious health care problems and, thus, with the highest annual health care costs (notably, those "very old" -- 85 and up).

- But many people on Medicare, including those close to age 65, are often quite healthy.

- If managed care is voluntary, private HMOs will do everything they can to enroll those who are young and healthy -- and exclude those who are old and sick. Moreover, those who are already sick and undergoing intensive health care are the least likely to want to change health care providers.

- To the extent that HMOs succeed in enrolling only the healthy, with below-average health care costs, they will make a profit -- and Medicare will "lose" money.

- They will leave to Medicare the expense of treating those with the highest health care costs.

- Thus, contrary to Speaker Gingrich's assertions, a managed care strategy will increase Medicare spending if the old and sick elderly keep the choice to remain in the current system.

Vouchers:

- Consider what happens to two typical elderly persons who get a \$5,000 voucher, as Speaker Gingrich has talked about:

- One person, age 85 and frail, has annual medical expenses of \$9,000.

- A second person, 65 and healthy, has annual medical expenses of \$1,000.

- A \$5,000 voucher would, on average, cover their health care costs.

- But giving a \$5,000 voucher to the healthy 65-year-old would increase Medicare's costs by \$4,000.

- In contrast, the \$5,000 voucher would not cover the costs of the 85-year-old.

-- Thus, handing out \$5,000 vouchers would either cost the Government money, or leave the most vulnerable elderly without complete medical care.

- For the very old and frail who tend to have low incomes, medical costs not covered by the voucher will ultimately fall to the Government's Medicaid program.

The Earned Income Tax Credit (EITC) and the Economic Implications of Republican Budget Plans (Laura Tyson):

- While Republicans cut Medicare and Medicaid to finance their tax cut for the wealthy, they also plan a tax increase on low-income, working families.

- Republican tax proposals reveal the sharpest possible distinction between the President's vision for America and that of Republicans.

-- The President wants to provide targeted tax relief for middle-income Americans who may not have shared in the economic recovery.

- He wants to help them raise their children, educate and train themselves and their children, and save for the future.

- Republicans want to cut taxes for the wealthy, and actually increase taxes on the very people who need and deserve it most.

- Republicans plan to raise \$13 billion over five years by rolling back part of the President's 1993 expansion of the EITC, which would ensure that working Americans do not have to raise their families in poverty.

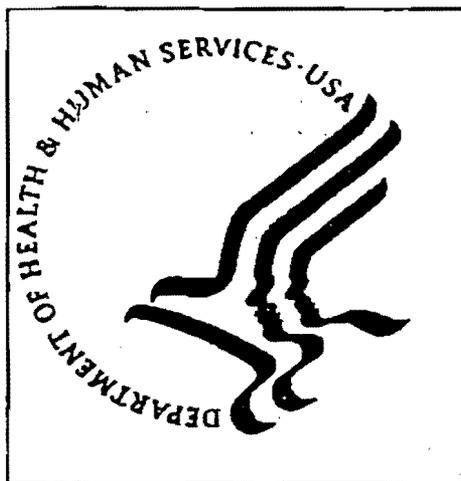
-- Most EITC recipients are doing the hardest job in America -- playing by the rules, working at modest wages to support their children.

-- The 1993 law was designed to help those who are not benefiting from the current economic expansion.

-- The cut eliminates the EITC entirely to families without children.

-- Freezing the proposed EITC expansions could cost millions of moderate-income families with children up to \$350 a year in added taxes.

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



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Number of Pages (Including Cover): _____

Comments:

As: (1) DC Kesich '02
A 88

(2) Billions →
Millions

Effects of the Domenici Medicare Proposal On States
 Aggregate Dollar Loss for States Under the Proposal
 (Dollars in millions, fiscal years)

	2002	1996-2002
US	61,700	255,600
Alabama	1,443	5,534
Alaska	36	158
Arizona	1,083	4,367
Arkansas	456	2,007
California	8,597	34,302
Colorado	834	3,230
Connecticut	906	3,756
Delaware	204	816
District of Columbia	1,040	3,508
Florida	6,769	26,448
Georgia	1,510	6,161
Hawaii	314	1,174
Idaho	108	497
Illinois	1,928	8,659
Indiana	1,141	4,830
Iowa	360	1,676
Kansas	606	2,508
Kentucky	703	3,070
Louisiana	1,156	4,792
Maine	168	772
Maryland	775	3,497
Massachusetts	2,233	8,927
Michigan	1,588	7,199
Minnesota	1,099	4,265
Mississippi	489	2,122
Missouri	1,113	4,822
Montana	114	513
Nebraska	245	1,071
Nevada	464	1,746
New Hampshire	212	874
New Jersey	1,686	7,349
New Mexico	181	804
New York	3,894	17,196
North Carolina	1,573	6,375
North Dakota	116	511
Ohio	1,878	8,461
Oklahoma	550	2,436
Oregon	734	2,915
Pennsylvania	3,289	14,314
Rhode Island	350	1,365
South Carolina	802	3,167
South Dakota	112	491
Tennessee	1,729	6,829
Texas	3,945	16,055
Utah	241	1,005
Vermont	76	339
Virginia	764	3,461
Washington	710	3,131
West Virginia	342	1,510
Wisconsin	665	3,041
Wyoming	35	172
Puerto Rico	332	1,358
All Other Areas	2	14

NOTES: Based on historical state share of Medicare outlays, trended forward with growth in the states' share of outlays.
 Estimates based on Medicare outlays by location of service delivery.

Effects of the Domenici Medicare Proposal On States
Per-Beneficiary Dollar Loss for States Under the Proposal
(Dollars, fiscal years)

	2002	1996-2002
US	747	3,174
Alabama	1,026	4,027
Alaska	364	1,794
Arizona	729	3,125
Arkansas	506	2,266
California	1,065	4,369
Colorado	811	3,314
Connecticut	848	3,568
Delaware	883	3,665
District of Columbia	NA	NA
Florida	1,147	4,626
Georgia	792	3,356
Hawaii	853	3,361
Idaho	317	1,512
Illinois	570	2,584
Indiana	640	2,765
Iowa	371	1,733
Kansas	762	3,175
Kentucky	552	2,467
Louisiana	911	3,865
Maine	379	1,788
Maryland	572	2,669
Massachusetts	1,121	4,547
Michigan	536	2,492
Minnesota	818	3,222
Mississippi	580	2,558
Missouri	635	2,783
Montana	402	1,861
Nebraska	479	2,100
Nevada	785	3,331
New Hampshire	593	2,540
New Jersey	678	2,997
New Mexico	352	1,656
New York	716	3,180
North Carolina	654	2,770
North Dakota	545	2,418
Ohio	522	2,397
Oklahoma	529	2,385
Oregon	700	2,862
Pennsylvania	752	3,311
Rhode Island	999	3,925
South Carolina	675	2,783
South Dakota	456	2,032
Tennessee	1,012	4,110
Texas	815	3,456
Utah	528	2,329
Vermont	417	1,901
Virginia	408	1,923
Washington	460	2,098
West Virginia	491	2,197
Wisconsin	413	1,916
Wyoming	245	1,258
Puerto Rico	315	1,322
All Other Areas	3	20

NOTES: Based on historical state share of Medicare outlays & enrollment, trended forward with growth in the states' share of outlays & enrollment.

Estimates based on Medicare outlays by location of service delivery. Because of issues related to state border crossing, the District of Columbia estimates are unreliable.

Effects of the Kasich Medicare Proposal On States
Aggregate Dollar Loss for States Under the Proposal
(Dollars in millions, fiscal years)

	2002	1996-2002
US	84,900	279,200
Alabama	1,986	6,146
Alaska	50	171
Arizona	1,491	4,799
Arkansas	627	2,165
California	11,830	37,780
Colorado	1,147	3,579
Connecticut	1,247	4,103
Delaware	281	899
District of Columbia	1,431	4,001
Florida	9,314	29,258
Georgia	2,077	6,754
Hawaii	432	1,311
Idaho	149	532
Illinois	2,652	9,301
Indiana	1,569	5,253
Iowa	495	1,786
Kansas	834	2,741
Kentucky	968	3,318
Louisiana	1,590	5,235
Maine	231	825
Maryland	1,066	3,752
Massachusetts	3,072	9,828
Michigan	2,185	7,717
Minnesota	1,512	4,725
Mississippi	674	2,297
Missouri	1,531	5,219
Montana	157	551
Nebraska	338	1,158
Nevada	638	1,946
New Hampshire	292	956
New Jersey	2,320	7,945
New Mexico	249	866
New York	5,359	18,539
North Carolina	2,165	6,998
North Dakota	159	551
Ohio	2,584	9,083
Oklahoma	757	2,625
Oregon	1,010	3,213
Pennsylvania	4,526	15,479
Rhode Island	482	1,511
South Carolina	1,103	3,495
South Dakota	153	530
Tennessee	2,378	7,537
Texas	5,428	17,608
Utah	331	1,096
Vermont	105	365
Virginia	1,052	3,711
Washington	978	3,377
West Virginia	471	1,628
Wisconsin	914	3,254
Wyoming	49	182
Puerto Rico	457	1,488
All Other Areas	3	14

NOTES: Based on historical state share of Medicare outlays, trended forward with growth in the states' share of outlays.
Estimates based on Medicare outlays by location of service delivery.
Technical reestimates of the aggregate savings may result in a 7-year total of \$282 billion.

Effects of the Kasich Medicare Proposal On States
Per-Beneficiary Dollar Loss for States Under the Proposal
(Dollars, fiscal years)

	2002	1996-2002
US	1,028	3,447
Alabama	1,412	4,450
Alaska	502	1,889
Arizona	1,002	3,389
Arkansas	696	2,435
California	1,466	4,783
Colorado	1,116	3,630
Connecticut	1,167	3,885
Delaware	1,215	4,002
District of Columbia	NA	NA
Florida	1,578	5,082
Georgia	1,090	3,649
Hawaii	1,173	3,710
Idaho	436	1,603
Illinois	784	2,770
Indiana	881	2,994
Iowa	510	1,845
Kansas	1,048	3,464
Kentucky	760	2,652
Louisiana	1,254	4,201
Maine	521	1,900
Maryland	787	2,843
Massachusetts	1,542	4,989
Michigan	737	2,657
Minnesota	1,126	3,557
Mississippi	799	2,758
Missouri	873	3,004
Montana	553	1,986
Nebraska	659	2,266
Nevada	1,080	3,620
New Hampshire	816	2,755
New Jersey	932	3,229
New Mexico	484	1,761
New York	986	3,423
North Carolina	900	3,012
North Dakota	750	2,604
Ohio	718	2,562
Oklahoma	729	2,560
Oregon	963	3,135
Pennsylvania	1,034	3,570
Rhode Island	1,375	4,336
South Carolina	929	3,043
South Dakota	628	2,186
Tennessee	1,393	4,509
Texas	1,122	3,757
Utah	727	2,511
Vermont	573	2,034
Virginia	561	2,044
Washington	633	2,246
West Virginia	676	2,362
Wisconsin	569	2,044
Wyoming	337	1,313
Puerto Rico	433	1,440
All Other Areas	4	20

NOTES: Based on historical state share of Medicare outlays & enrollment, trended forward with growth in the states' share of outlays & enrollment.

Estimates based on Medicare outlays by location of service delivery. Because of issues related to state border crossing, the District of Columbia estimates are unreliable.

Effects of the Kasich Medicare Proposal On States
 Loss for States Under the Proposal
 (Dollars in millions, fiscal years)

	Aggregate Dollars (millions)		Per Capita Effect (\$ per benef.)	
	2002	1996-2002	2002	1996-2002
US	84,900	279,200	1,028	3,447
Alabama	1,986	6,146	1,412	4,450
Alaska	50	171	502	1,889
Arizona	1,491	4,799	1,002	3,389
Arkansas	627	2,165	696	2,435
California	11,830	37,780	1,466	4,783
Colorado	1,147	3,579	1,116	3,630
Connecticut	1,247	4,103	1,167	3,885
Delaware	281	899	1,215	4,002
District of Columbia	1,431	4,001	NA	NA
Florida	9,314	29,258	1,578	5,082
Georgia	2,077	6,754	1,090	3,649
Hawaii	432	1,311	1,173	3,710
Idaho	149	532	436	1,603
Illinois	2,652	9,301	784	2,770
Indiana	1,569	5,253	881	2,994
Iowa	495	1,786	510	1,845
Kansas	834	2,741	1,048	3,464
Kentucky	968	3,318	760	2,652
Louisiana	1,590	5,235	1,254	4,201
Maine	231	825	521	1,900
Maryland	1,066	3,752	787	2,843
Massachusetts	3,072	9,828	1,542	4,989
Michigan	2,185	7,717	737	2,657
Minnesota	1,512	4,725	1,126	3,557
Mississippi	674	2,297	799	2,758
Missouri	1,531	5,219	873	3,004
Montana	157	551	553	1,986
Nebraska	338	1,158	659	2,266
Nevada	638	1,946	1,080	3,620
New Hampshire	292	956	816	2,755
New Jersey	2,320	7,945	932	3,229
New Mexico	249	866	484	1,761
New York	5,359	18,539	986	3,423
North Carolina	2,165	6,998	900	3,012
North Dakota	159	551	750	2,604
Ohio	2,584	9,083	718	2,562
Oklahoma	757	2,625	729	2,560
Oregon	1,010	3,213	963	3,135
Pennsylvania	4,526	15,479	1,034	3,570
Rhode Island	482	1,511	1,375	4,336
South Carolina	1,103	3,495	929	3,043
South Dakota	153	530	628	2,186
Tennessee	2,378	7,637	1,393	4,509
Texas	5,428	17,608	1,122	3,757
Utah	331	1,096	727	2,511
Vermont	105	365	573	2,034
Virginia	1,052	3,711	561	2,044
Washington	978	3,377	633	2,246
West Virginia	471	1,628	676	2,362
Wisconsin	914	3,254	569	2,044
Wyoming	49	182	337	1,313
Puerto Rico	457	1,488	433	1,440
All Other Areas	3	14	4	20

NOTES: Based on historical state share of Medicare outlays, trended forward with growth in the states' share of outlays.

Estimates based on Medicare outlays by location of service delivery. Because of issues related to state border crossing, the District of Columbia estimates are unreliable.

Technical reestimates of the aggregate savings may result in a 7-year total of \$282 billion.

MEMORANDUM

To: Distribution.

From: Gene Sperling
Chris Jennings
Jennifer Klein

Date: May 2, 1995

Re: Latest Health Care Information

Attached for your information are 1) the latest Medicare and Medicaid talking points which have been distributed to Democratic hill staff; 2) the letter that Leon sent to Speaker Gingrich yesterday; and 3) quotes taken from the Republicans of the Ways & Means Committee 1994 "Minority Views," in which they explicitly decry the impact of deep Medicare cuts on Medicare programs.

**MEDICARE/MEDICAID CUTS:
BUSINESS, PROVIDER AND ADVOCACY GROUPS' RESPONSES**

The National Association of Manufacturers says:

"Across the board reductions in [Medicare and Medicaid] should be avoided, since they are likely to exacerbate cost-shifting to the private sector." (February 11, 1995)

Eastman Kodak says:

"My message to you as you wrestle with the growing costs of the Medicare program is that greater use of managed care and aggressive purchasing of care on the part of the government are more appropriate solutions than massive across-the-board cuts in payments to providers, which result in cost shifting or an invisible tax on companies providing coverage to employees in the private sector." (March 21, 1995)

American Hospital Association says:

"One of every four hospitals in the United States is in 'serious trouble,' and with deep reductions in Medicare growth will be forced to cut services or close its doors." (April 13, 1995)

"The wrong way [to reform Medicare] is to do business as usual, letting short-sighted political pressures squeeze Medicare spending and weaken a program that needs to remain strong for our nation's seniors." (February 6, 1995)

"Sixty-four percent of the electorate believes that if you ran for office saying that you would not cut social security, and if Congress votes this year to cut Medicare then that Member of Congress has broken their campaign promise." (April 1995 Polling Data Report)

American Association of Retired Persons says:

"Medicare was hardly discussed in the last election; and there was certainly no mandate from the electorate to change the system." (March 28, 1995)

Medicare cuts "would mean that over the next 5 years older Americans would pay at least \$2000 more out of pocket than they would pay under current law. And over the next seven years they would pay \$3489 more out of pocket." (March 6, 1995)

"...[T]he total number of Medicaid beneficiaries in need who would lose long-term care services...could reach 1.75 million in the year 2000." (March 6, 1995)

The National Council of Senior Citizens says:

"The facts do not warrant a panic approach or a fundamental recasting of Medicare. The trust fund is not about to go belly-up; a seven-year window does not merit a panic button."

"The levels of the cuts in Medicare contemplated by the Senate and House Budget Committees will not just devastate the finances of millions of older citizens, but more importantly, they will devastate the hopes for a secure and healthy old age for all Americans." (April 1995)

Older Women's League says:

"We receive hundreds of letters from women who are already forced to choose between paying for food and rent and buying much needed medicine that is not covered by their Medicare. Substantial cuts in Medicare will literally take food out of the mouths of these older women." (January 10, 1995)

Children's Defense Fund says:

"States could make these cuts in several ways: by raising taxes substantially; by excluding groups of children from programs or putting them on waiting lists; by reducing benefits or the quality of services; or by making low-income families pick up more costs through co-payments and fees. Regardless of which method is chosen, the overall effect would be large." (April 19, 1995)

Catholic Health Association says:

"Budget cuts of such magnitude [in Medicare and Medicaid] would attack the very fiber of these programs and, in fact, decimate them. Consequently, the Catholic Health Association believes that Congress should put aside consideration of tax cuts for now and refocus the debate on how best to solve the deficit problem." (March 2, 1995)

THE WHITE HOUSE

WASHINGTON

May 1, 1995

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

Dear Mr. Speaker:

The President has asked me to respond to your letter of April 28, 1995. As the Administration has shown over the last two and a half years, we are committed to reducing the deficit and achieving meaningful health care reform. We continue to seek progress on both of these fronts, while also making our tax system fairer and our system of investing in education and children even stronger.

When this President took office on January 20, 1993, he inherited an escalating deficit and a Medicare Trust Fund that was projected to be insolvent in 1999. Twenty-seven days later, he proposed, and then helped pass, a historic deficit reduction plan that included several serious policies to strengthen the Trust Fund. Indeed, these proposals pushed out the insolvency date by three full years.

Last year, the President spoke directly to the nation about the need to reform our health care system and made clear that further federal health savings needed to take place in the context of serious health care reform. In December 1994, the President wrote the Congressional leadership and made clear that he would work with Republicans to control health care spending in the context of serious health care reform. The President repeated this offer in his 1995 State of the Union speech.

Despite these repeated calls for significant action on health care reform, the reply from the Republicans has been silence. Indeed, the only proposal in the Contract with America that specifically addresses the Medicare Trust Fund would explicitly *weaken* it by \$27 billion over seven years and undo some of the progress made in 1993.

Moreover, the over \$300 billion in Medicare cuts over seven years -- the largest Medicare cut in history -- you are reported to be considering would be completely unnecessary if you did not have to pay for a seven-year \$345 billion tax cut that goes predominantly to well-off Americans. *No amount of accounting gimmicks, separate accounts, dual budget resolutions or reconciliations can hide the reality that you are essentially calling for the largest Medicare cut in history to pay for tax cuts for the well-off.*

The President has long stated that making significant cuts in Medicare and Medicaid outside the context of health care reform will not work. Such dramatic cuts could lead to

less coverage and lower quality, much higher costs to poor and middle income Medicare recipients who cannot afford them, a coercive Medicare program, and cost-shifting that could lead to a hidden tax on the health premiums of average Americans. That is why it is essential to deal with the Medicare Trust Fund in the context of health care reform that protects the integrity of the program, expands not reduces coverage, and protects choice as well as quality and affordability.

The Medicare Trust Fund is an important issue that needs to be addressed in a bipartisan way in the context of larger health care reform. To do that, you must first meet the requirements of the budget law that Congress pass a budget resolution. The April 15 deadline has passed, and the American people are still waiting to see the new Republican majority fulfill this responsibility. If you really want to work together on the Medicare Trust Fund, you must first pass a budget plan that fully specifies how you plan to balance the budget and pay for the proposed tax cuts.

We hope that you will work hard to respond to these issues. The Administration and the American people continue to await your proposals.

Sincerely,

A handwritten signature in black ink, appearing to read 'Leon E. Panetta', with a long horizontal line extending to the right.

Leon E. Panetta
Chief of Staff

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

MEDICARE CUTS? LOOK WHAT REPUBLICANS SAID LAST YEAR!

Dear Democratic Colleague:

The Republicans are about to try to cut Medicare \$250 to \$310 billion over the next 7 years.

Last year all 14 Republican Members of the Ways and Means Committee signed the following minority views to HR 3600, the Health Reform bill:

"The reimbursement levels of medicare have reached potentially disastrous levels, as ProPAC's current report underscores.

"Anyone who doubts this only has to look at the current Medicare program for the elderly and the Medicaid program for the poor. For more than a decade, Congress has cut back on payments to doctors and hospitals until they no longer cover the cost of care for Medicare and Medicaid patients--and the additional massive cuts in reimbursement to providers proposed in this bill will reduce the quality of care for the nation's elderly."

As you remember, HR 3600 did cut Medicare spending \$157 billion over 7 years but returned ALL the money to the health care system by insuring everyone (no more bad debt and uncompensated care for doctors and hospitals) and providing seniors with a prescription drug coverage and better Medicare benefits. The Republican cuts won't go for Medicare improvements or health care reform--they will just be cuts.

We should all remind the Republicans--often--of what they said last year.

Sincerely,

Pete Stark
Member of Congress



MEDICARE TRUST FUND SOLVENCY PROBLEM

Unlike the Republicans, This is Not a Problem Democrats Just Discovered. The President, his Administration and the Democrats have been concerned about Medicare trust fund from the beginning. OBRA 1993 and economic improvements resulting from this legislation have strengthened the trust fund and pushed out the insolvency date by three years. Furthermore, in the context of broader reforms, the Administration's proposal would have extended the life of the trust fund another 5 years. **The Republicans rejected each and every initiative that would have strengthened the Medicare Trust Fund.**

The Medicare Trust Fund is a Long-Term Problem that Needs to be Addressed. Of course with the aging of our population, there is a long-term solvency problem for the Medicare trust fund. This is nothing new, but it needs to be addressed. It needs to be addressed thoughtfully, outside the budgetary process, and independent of partisan politics.

In Contrast to the Democrats, the Republicans Have Just Discovered this Issue. In the last two years, all the Republicans have done has been to oppose our efforts to improve the Trust Fund. As a matter of fact, the only proposal they have put forth (their tax cut for the highest income seniors -- the top 13 percent) actually exacerbates the problem.

The Republicans are Using the Trust Fund as a Smoke Screen for Cuts. Let's be clear: Their proposals have nothing to do with the long-term solvency issue; they do not address the underlying problems of an aging population. The Republicans want to use the Medicare program as a bank for their tax cuts for the wealthy and to fulfill their campaign promises.

When they Finally Put Forth a Detailed Budget and Commit to Dealing with Medicare in the Context of Serious Health Care Reform, the President Stands Ready to Work Toward a Real Solution: Currently, the issue of Medicare is only being addressed by Republicans as they face a political crisis to find funds to pay for large tax cuts for the well-off and fulfill their campaign budget promises. When Republicans finally put forth a budget that is detailed and makes clear they are not slashing Medicare to pay for tax cuts, the President stands ready to work with Republicans to address the real problems facing the Trust Fund and the American people in the health care system.

REPUBLICAN MEDICARE CUTS

Republicans are considering proposals that would cut Medicare funding by between \$250 billion and \$305 billion between now and 2002. Slashing Medicare at this level translates into 20% to 25% cuts in 2002 alone for this program serving our most vulnerable Americans -- the elderly and disabled.

COERCION INSTEAD OF CHOICE: Managed care simply cannot produce anywhere near the magnitude of Federal savings being suggested by the Republicans without turning Medicare into a fixed voucher program. That would put Medicare's 36 million beneficiaries, many of whom have pre-existing conditions, into the private insurance market to shop for what they can get. With a fixed and limited voucher, beneficiaries would have to pay far more to stay in the current Medicare program if large savings are to be realized. That's not choice, that is financial coercion.

ADDING TO ALREADY HIGH COSTS FOR SENIORS: Today, despite their Medicare benefits, health care consumes major amounts of older Americans' income. According to the Urban Institute, the typical Medicare beneficiaries already dedicate a staggering 21% (or \$2,500) of their incomes to pay for out-of-pocket health care expenditures.

\$3,100-\$3,700 Out-of-Pocket Payments: If the Republican cuts (\$250 billion to \$305 over seven years) are evenly distributed between health care providers and beneficiaries, the cuts would add an additional \$815 to \$980 in out-of-pocket burdens to Medicare beneficiaries in 2002. Over the seven year period, the typical beneficiary would pay between \$3,100 to \$3,700 more.

Reduce Half of Social Security COLA: The Republicans say they aren't cutting Social Security, but these Medicare cuts are a back-door way of doing just that. By 2002, the typical Medicare beneficiary would see 40 to 50 percent of his or her cost-of-living adjustment eaten up by the increases in Medicare cost sharing and premiums. In fact, about 2 million Medicare beneficiaries will have all or more than all of their COLAs consumed by the Republican beneficiary cost increases.

\$40-\$50 Billion in Cost-Shifting: Assuming the other half of the Republicans' cuts go to providers, hospitals, physicians and other providers would be targeted with between a \$125 billion to \$150 billion cut over seven years. In 2002 alone, a \$33 billion cut in providers would be needed. Even if only one-third of Medicare provider cuts overall are shifted onto other payers (an assumption consistent with a 1993 CBO analysis), businesses and families would be forced to pay a hidden tax of \$40 billion to \$50 billion in increased premiums and health care costs between now and 2002.

Rural and Inner City Hospitals At Risk: Cuts of this magnitude, combined with the growing uncompensated care burden (which would be further exacerbated by Medicaid cuts and increases in the number of uninsured), would place rural and inner-city providers in jeopardy because they have limited or no ability to shift costs to other payers. As a result, quality and access to needed health care would be threatened.

THE REALITY OF MEDICARE GROWTH

- Despite the current rhetoric, Medicare expenditure growth is comparable to the growth in private health insurance.
 - Under Administration estimates, Medicare spending per person is projected to grow over the next five years at about the same rate as private health insurance spending. Under CBO estimates, Medicare spending per person is projected to grow only about one percentage point faster than private health insurance.
 - So, unless Medicare can control costs substantially better than the private sector, beneficiaries and providers would be forced to shoulder the burden of the huge cuts being proposed by Republicans.

MAJOR BURDEN ON RURAL AMERICA

- Reducing Medicare payments would disproportionately harm rural hospitals.
 - Nearly 10 million Medicare beneficiaries (25% of the total) live in rural America where there is often only a single hospital in their county. These rural hospitals tend to be small and serve large numbers of Medicare patients.
 - Significant cuts in Medicare revenues has great potential to cause a good number of these hospitals, which already are in financial distress, to close or to turn to local taxpayers to increase what are already substantial local subsidies.
 - Rural residents are more likely than urban residents to be uninsured, so offsetting the effects of Medicare cuts by shifting costs to private payers is more difficult for small rural hospitals.
 - Rural hospitals are often the largest employer in their communities; closing these hospitals will result in job loss and physicians leaving these communities.

UNDERMINES URBAN SAFETY NET

- Large reductions in Medicare payments would have a devastating impact on a significant number of urban safety-net hospitals. These hospitals already are bearing a disproportionate share of the nation's growing burden of uncompensated care. **On average, Medicare accounted for a bigger share of net operating revenues for these hospitals than did private insurance payers.**

REPUBLICAN MEDICAID CUTS

Republicans are considering cutting federal Medicaid funding by \$160 to more than \$190 billion between 1996 and 2002. The Republicans claim that they are not cutting the program, but simply reducing the rate of growth. Yet, these technical number disputes avoid the real question: who will be hurt, who will lose coverage and who will lose benefits if \$160 to \$190 billion are cut from a program that provides critical health care services. It also ignores the fact that 3 to 4 percent of program growth is for the increasing number of people being covered, without which millions more Americans would be uninsured.

- **HEAVY BURDEN TO FAMILIES FACING LONGTERM CARE:** While most people think that Medicaid helps only low-income mothers and children, about two-thirds of Medicaid funds are spent on services for elderly and disabled Americans. Without Medicaid, working families with a parent or spouse who need long-term care would face nursing home bills that average \$38,000 a year.
- **MANAGED CARE SAVINGS NOT NEARLY SUFFICIENT:** Savings from managed care cannot produce anywhere near the magnitude of cuts proposed by the Republicans. Two-thirds of Medicaid funds are spent on the elderly and disabled, and there is little to no evidence that putting them in managed care can produce savings. And because the baseline projections already assume that a growing number of mothers and children on Medicaid will be in managed care plans, there are little additional savings left in the remaining one-third of the program.
- **FLEXIBILITY CAN'T MASK DEEP CUTS:** Republicans defend these cuts by saying that what they are doing is giving added flexibility to states through block grants. Issues of flexibility can't mask the inevitable fact that states are being asked to absorb enormous federal cuts -- forcing them to cut spending for education, law enforcement or other priorities -- and that's unrealistic.

LIKELY IMPACTS: So let's look at what these cuts really mean. Even accounting for some managed care savings, they mean deep cuts in eligibility, benefits and payments to doctors, hospitals, nursing homes and other health care providers. If the Republicans were to cut \$160 to \$190 billion between 1996 and 2002 and those cuts were divided evenly between eliminating eligibility for elderly and disabled beneficiaries, eliminating eligibility for children, cutting services, and cutting provider payments, that would mean -- in the year 2002 alone -- that:

- **5 TO 7 MILLION KIDS WOULD LOSE COVERAGE; and**
- **800,000 TO 1 MILLION ELDERLY AND DISABLED BENEFICIARIES WOULD LOSE COVERAGE; and**
- **TENS OF MILLION LOSE BENEFITS:** All preventive and diagnostic screening services for children, home health care and hospice services would be eliminated -- as well as dental care if the \$190 billion were cut; and
- **OVER TEN BILLION REDUCED TO HEALTH CARE PROVIDERS:** Already low payments to health care providers would be reduced by \$10.7 to \$12.8 billion.

Gingrich Can Avert GOP Disaster Over Medicare

By PETER J. FERRARA

The Republicans face a potential political disaster over Medicare. The reform plan developed over the past several weeks at the House and Senate staff levels would impose penalties on elderly Medicare beneficiaries unless they choose to receive their health care from health maintenance organizations. The plan would then squeeze Medicare payments to the HMOs and let the HMOs ration retiree health care.

If this sounds familiar, it should. It was the essence of the Clinton health plan last year, the most decisively rejected idea in American politics since slavery.

But it gets even worse. The current staff proposals would increase Medicare premiums paid by the elderly, already totaling \$1,100 per year for a couple. These Medicare premiums are deducted directly from Social Security checks. The planned premium increases would consequently reduce net Social Security payments. Politically, this would inevitably be seen as a cut in these benefits, directly contrary to repeated Republican promises to leave Social Security alone.

The political impact can be seen in the fight over catastrophic health insurance in the late 1980s. Congress at that time increased Medicare premiums on the elderly to finance added Medicare benefits. The result was a political firestorm that forced the repeal of both the added premiums and the added benefits. Unfortunately, some Republicans in a position to pose as reform strategists now want to adopt the same premium increases, but without the added benefits.

House Speaker Newt Gingrich, whose staffers are among the few who have recognized these problems, pulled the Republicans back from this course last week. He effectively called for the development of a new plan outside the budget process that would leave managed care as just one option among many.

Mr. Gingrich now seems to be leaning in favor of a proposal already developed by free-market and conservative organizations, led by the National Center for Policy Analysis in Dallas. The essence of that proposal is to allow the elderly to withdraw their share of funds from Medicare, including Parts A and B, and purchase their coverage from any alternative private source they may prefer. The private options would include Medical Savings Accounts (MSAs), HMOs, employer health plans, or any other private insurance.

The share of Medicare that each elderly retiree could withdraw to purchase private coverage would be limited to grow no faster than Medicare revenues, averting the program's impending financial collapse. Each retiree's share of Medicare would also be risk-adjusted to reflect his or her age, geographic area and health risk. Consequently, those who are older and

to purchase private coverage, reflecting what they would need to buy it. In contrast, those who are younger and healthier would receive less, reflecting the lower amount they would need to buy private coverage. Each retiree would be perfectly free to stay in Medicare and not choose any private coverage.

Under the MSA option, each retiree could devote his or her share of Medicare funds to the MSA, as well as the amounts that would have been paid in Medicare premiums and private Medigap insurance. The retiree could also contribute the funds that would otherwise be paid out of-pocket for health care, estimated by the American Association of Retired Persons to be about \$1,500 per year for each retiree. Actuaries have calculated that funds from these sources would be sufficient to buy private insurance covering all health expenses over a \$3,000 deductible, with more than enough remaining to put \$3,000 in the MSA. The MSA funds would then be used to pay for expenses below \$3,000. Whatever MSA funds the retiree did not spend by the end of the year could be withdrawn and used for any purpose.

Employers have already begun adopting MSAs around the country and are finding that the powerful cost control incentives they provide sharply reduce their health expenses. MSAs would produce much the same savings for Medicare, helping the program to hold expenditures within available revenues.

The final component of the reform would be to add an up-front deductible to the program adjusted each year to ensure that costs for those staying within Medicare do not exceed available revenues. This would reduce Medicare expenditures for the smaller, routine expenses that could be managed by most of the elderly, while maintaining essential coverage for higher expenses. The poor would be exempted from these increases, and the rest of the elderly could purchase private insurance to cover it to the extent they desire.

The deductible increase is more politically feasible because it leaves the funds in the hands of the elderly, and they choose when and how to spend it. By contrast, increased premiums hand more retiree funds over to the government, with the government making those decisions.

This proposal solves the Medicare financing crisis, with huge overall budget savings, essentially by giving the elderly direct control over the program's funds. Retirees can consequently profit by wise use of those funds. By avoiding unnecessary expenses, they can each pay themselves a large rebate each year under the MSA option. When they get sick, this reform would allow them to escape the increasing rationing of health care under Medicare, which is reducing the quality of care and access to care for the elderly. Instead, they would be free to choose the doctors, hospitals, treatments and benefits they want. These and other benefits of the plan would make the necessary reductions in program expenditures politically possible.

Mr. Ferrara, senior fellow of the National Center for Policy Analysis, is based in

Medicare Proposals Raise Questions—and Anxiety

By LAURIE MCGINLEY
Staff Reporter of THE WALL STREET JOURNAL

House Speaker Newt Gingrich's pledge this past weekend to drastically slow the growth of Medicare spending over the next seven years engendered new concerns among those enrolled in the program.

No matter that Mr. Gingrich promised that Congress would keep the current system as an option for enrollees who want it. Many people are nonetheless anxious and confused about the future of the government health-insurance program for the elderly.

Here are some answers to commonly asked questions about Medicare:

Q What does the budget debate mean to the 37 million Americans who are enrolled in the program, and to the doctors and hospitals who provide care?

A Specific Medicare changes will probably be debated for several months, but any substantial effort to curb Medicare growth is likely to affect everyone involved in the system. White House officials have suggested that, as a result of the GOP drive to cut costs, beneficiaries could end up paying an additional \$3,000 or more in out-of-pocket expenses over seven years—but critics say that number is based on faulty assumptions and is too high.

It's safe to assume that beneficiaries would face some increase in costs—whether from higher deductibles and premiums or the imposition of additional copayments. (The current monthly premium paid by Medicare beneficiaries is about \$46.)

Those electing to move into lower-cost managed-care networks would probably be spared the extra expense.

The Progress and Freedom Foundation, a think tank closely linked to Mr. Gingrich, has developed a proposal that would reduce projected Medicare spend-

ing by \$250 billion over seven years by encouraging the wider use of managed-care arrangements and medical savings accounts. Under the plan, a traditional fee-for-service option would be retained for those who want it; but some services that are now fully covered, such as home health visits and laboratory tests, would require copayments by beneficiaries.

Hospitals are bracing for proposed changes affecting capital expenditures and inflation adjustments for inpatient procedures. Doctors are likely to face a further decrease in reimbursement rates.

In remarks yesterday, at the Heritage Foundation, Rep. William Thomas, chairman of the House subcommittee on health, said his panel would develop Medicare-reform recommendations that used a "balanced, shared" approach to shore up the system among beneficiaries and providers. And he said that down the road, Congress would have to consider raising the eligibility age for Medicare from the current 65; the age for full Social Security benefits will rise gradually to 67, beginning in the year 2000.

Q There is a lot of talk about moving the elderly into managed-care or similar arrangements. But didn't Speaker Gingrich say that no one would be forced into making such a change?

A Yes, the speaker and other Republicans, mindful of the political sensitivity of the freedom-of-choice issue, have repeatedly said the elderly won't be forced into managed-care or "coordinated care" networks. But they say many of the elderly will voluntarily make the change to get the additional benefits offered by many health-maintenance organizations, including coverage for drugs and eyeglasses. Rep. Thomas said flatly yesterday that those among the nation's elderly who opt to stay in the traditional, fee-for-service program probably would be required to pay more as the cost of the program increases.

Q&A

Q Is it true, as the Republicans say, that Medicare is in financial trouble and needs attention?

A Yes. Last month, the Medicare system's trustees warned that unless changes are made, the hospital insurance trust fund will be insolvent by 2002.

But some Democrats argue that the extreme urgency in fixing Medicare has been manufactured by the GOP for political and budgetary reasons. They note that last year's trustees' report, which was similar to this year's, didn't stop the Republicans from blocking administration efforts to make major Medicare changes as part of comprehensive health reform.

Karen Davis, president of the New York-based Commonwealth Fund, contends that the insolvency projections are "highly uncertain" and extremely sensitive to economic and health-care trends.

There is little doubt, however, that Medicare faces a long-term funding crisis, especially as the baby-boom generation begins to reach eligibility in 2010. Action needs to be taken to shore up the program, and the sooner the better, many analysts say. "Any delay will require more dramatic cuts and program changes in the future," says June O'Neill, director of the Congressional Budget Office.

Q Aren't waste, fraud and abuse a big part of Medicare's problem? What's being done about that?

A No one knows exactly how much is lost each year to waste, fraud and abuse, but the General Accounting Office, in an admittedly rough estimate, puts the number at around 10% of the program's total budget. Last week, President Clinton announced "Operation Restore Trust," an intensive effort to ferret out fraud in five states—New York, Florida, Illinois, Texas and California—that together have nearly 40% of all Medicare and Medicaid recipients. The GAO said last week that abuse of the Medicare program's billing

Please Turn to Page B6, Column 5

Continued From Page B1

system by doctors will cost the program \$4 billion over the next five years.

But Thomas Scully, president of the Federation of American Health Systems, which represents for-profit hospitals, contends that the best way to reduce fraud is to privatize Medicare. "There's much less fraud against the private carriers because they are much better at policing," he says.

Q: What about the argument that scaling back the rate of Medicare spending growth without first passing comprehensive health-care reform will cause doctors and hospitals to raise prices for the privately insured patients to make up for lost revenue?

A: So-called cost shifting has become much more difficult in the current highly competitive, cost-conscious environment, analysts say. "Five years ago, people would shift costs," Mr. Scully says. "Now, they tend to lay off nurses or doctors, or buy less equipment. There just aren't many people to shift the costs to."

MEMORANDUM

To: Distribution

From: Chris Jennings

Date: May 8, 1995

Re: Panetta letter to Dole and Gingrich on Tax Cuts/Medicare

In case you haven't already seen it, attached for your information is the letter Leon Panetta forwarded to the Hill late this afternoon, challenging the Republicans to provide an assurance that no Medicare cuts would be utilized for tax reductions for the well-off. We are sending it to you so that you can be prepared for any questions about it and the Administration's position on the funding of tax cuts.

THE WHITE HOUSE

WASHINGTON

May 8, 1995

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

Dear Mr. Speaker:

This week both the House and Senate Budget Committees are reported to be laying down budget plans that include Medicare cuts totalling between \$250-\$300 billion. As the President stated at the White House Conference on Aging, while the status quo is not acceptable, we also must make sure that we are dealing with Medicare and the Medicare Trust Fund in the right way. The right way to address such health care issues is to ensure that the steps we are taking not only control costs but also expand coverage, preserve choice, and ensure quality and affordable health care for our people.

The wrong way, as the President stated, is to use Medicare and Medicaid as a bank to pay for tax cuts for well-off Americans. Regardless of what budget or accounting devices are used, it is clear that current proposals would mean that Medicare and long-term care are being cut dramatically in order to ensure that there are enough savings to fund a huge tax cut. It is unwise and unfair to ask senior citizens to bear the largest cuts in history in Medicare and long-term care in order to free up funds for a tax cut for our most well-off Americans. How could we justify asking hundreds of thousands of families to lose their long-term coverage and tens of millions of seniors to pay thousands more in out-of-pocket costs at the same time we give the top one percent a \$20,000 tax cut and allow major corporations to pay no tax whatsoever?

The only way to guarantee that historic cuts in Medicare and Medicaid are not funding tax cuts for the wealthy is to drop such tax cuts now, clearly and unequivocally. Only when you have proposed and passed a specific budget that explicitly rules out tax cuts for the wealthy and ensures that health care savings are part of a sensible overall health reform effort that works for everyone, can we start the vital discussion of how to secure health care and responsible deficit reduction for the future.

Sincerely,



Leon E. Panetta
Chief of Staff

THE WHITE HOUSE

WASHINGTON

May 8, 1995

The Honorable Robert Dole
Majority Leader
United States Senate
Washington, D.C. 20510

Dear Mr. Leader:

This week both the House and Senate Budget Committees are reported to be laying down budget plans that include Medicare cuts totalling between \$250-\$300 billion. As the President stated at the White House Conference on Aging, while the status quo is not acceptable, we also must make sure that we are dealing with Medicare and the Medicare Trust Fund in the right way. The right way to address such health care issues is to ensure that the steps we are taking not only control costs but also expand coverage, preserve choice, and ensure quality and affordable health care for our people.

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Sincerely,



Leon E. Panetta
Chief of Staff

POINTS ON MEDICARE AND MEDICAID

1. SEPARATE ACCOUNTS OR BUDGET RESOLUTION CANNOT MASK THE FACT THAT THE HOUSE REPUBLICANS WOULD NOT HAVE TO CUT MEDICARE BY \$300 BILLION IF THEY WERE NOT PAYING FOR A \$345 BILLION TAX CUT:

Republican proposals for separate accounts can't hide the fact that they are making cuts in Medicare that would not be necessary if the Republicans did not have to pay for their large tax cuts for the wealthy. (Currently, according to the Treasury Department their tax cut costs \$345 billion over seven years. The Republican Joint Tax Committee has estimated higher costs) As long as Republicans have a \$345 billion tax cut, they cannot claim that they have to cut Medicare by \$300 billion either to balance the budget or to shore up the Medicare Trust Fund. They could easily use redirect the savings they are using for the tax cut to the Medicare Trust Fund.

The Republicans are saying that cuts in Republicans are like a family that tells you they are low on money and therefore have to cut their children's health care, while they have \$20,000 special account put away for a Hawaiian vacation. Most people would say why don't you use some of the special vacation account before you cut your kids health care.

Gingrich continues to state that they are every penny of Medicare changes are for Medicare. That is a purposely misleading statement. The House Republicans clearly need the Medicare savings as a key part of their savings for tax cuts and hitting a balanced budget by the year 2002. Indeed, Gingrich's spokesperson Tony Blankley candidly admitted "At the end of the process, whatever solutions are reached on Medicare will be part of the budget's bottom line." Washington Post, may 2, 1995 (See attached)

New York Times: "Little Meaning": As the New York Times said, "The Republicans will adopt new budget rules setting Medicare "off budget" and asserting that no cuts in Medicare could be used for anything but to shore up the Trust Fund. As a practical matter, this has little meaning. When the deficit is calculated, off budget items are counted the same as others.... The Republicans will still have to propose large cuts in projected spending for Medicare if they hope to balance the budget." (see attached)

2. THREE TIMES THE LARGEST MEDICARE CUT IN HISTORY: As US News & World Report stated, the Republican proposals would be three times the largest Medicare cut in history. Unlike the Clinton health care plan, none of the savings are plowed back into health care benefits.

3. NO PROOF THAT THEY CAN GET SUBSTANTIAL SAVINGS FROM MANAGED CARE:

Medicare and Managed Care: Because Republicans are simply trying to fill arbitrary health care savings targets that they need to hit to fulfill their campaign promises, they are arguing that they can get substantial benefits through managed care savings. While manage care can bring some savings over the long run, the Republicans have no proof

or support for the savings they claim. Even Republican appointed CBO Director June O'Neill has been unwilling to say there are substantial savings through managed care in Medicare.

Medicaid and Managed Care: Concerning, Medicaid, the numbers speak for themselves. Savings from managed care cannot produce anywhere near the magnitude of cuts proposed by the Republicans. Two-thirds of Medicaid funds are spent on the elderly and disabled, and there is little to no evidence that putting them in managed care can produce savings. And because the baseline projections already assume that a growing number of mothers and children on Medicaid will be in managed care plans, there are little additional savings left in the remaining one-third of the program.

4. ARE WE JUST CUTTING GROWTH RATES OR BENEFITS AND

BENEFICIARIES: Gingrich frequently points to slowing down the growth rate to imply that Medicare and Medicaid can be cut in a painless fashion. Yet, there is 3.8% annual growth in Medicaid (over 5% annual growth in the elderly and disabled category). If Republicans succeed with a 5% cap, it would limit inflation to about 1% per person -- a severe real cut each year. HCFA estimates that this would lead to 5-7 million less children covered and 800,000-1 million less disabled and elderly, often in nursing homes.

Medicare growth per person is very close to the per person costs in the private sector. While there may be savings in Medicare, so unless there is real health care reform that lowers costs overall, or lowers costs in the public health care system better than the private sector system, the elderly will be getting fewer benefits or paying more costs. That is why even if you assume that only half of the projected Medicare cuts go to beneficiaries, this would cost the average Medicare recipient between \$3100-\$3700 over seven years, and around \$900 per year out-of-pocket by the year 2002.



**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
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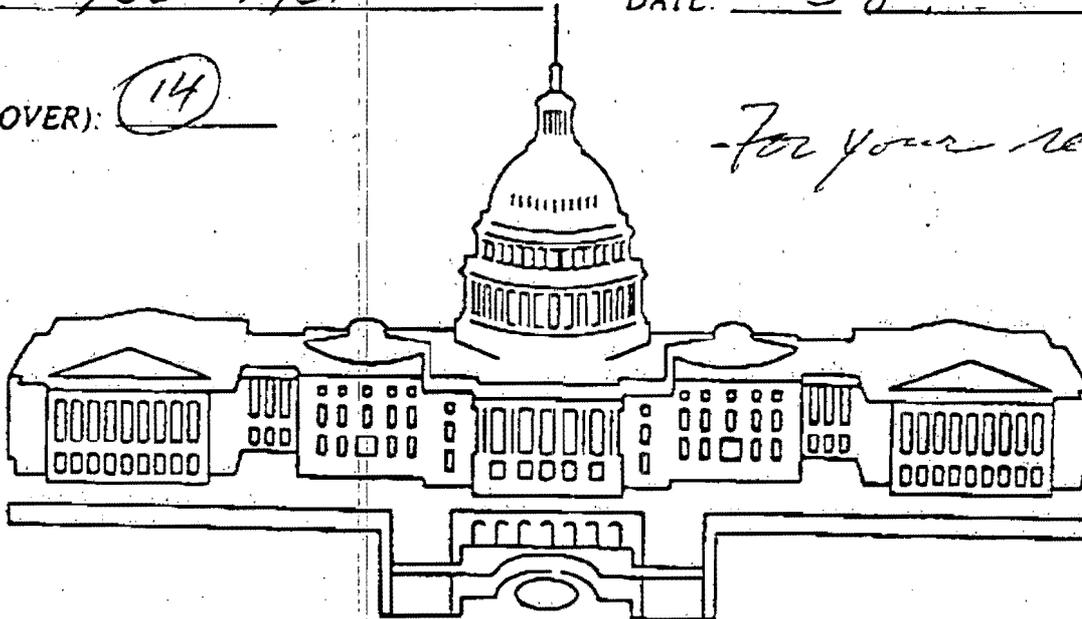
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REMARKS:



ORAL TESTIMONY

Donna E. Shalala

Secretary of Health and Human Services

at

The Senate Finance Committee

May 9, 1995

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

Thank you for the opportunity to testify before you on the Hospital Insurance (HI) Trust Fund.

Before I begin that discussion, let me call the Committee's attention to a matter in which I know you have a great interest.

Last week, at the White House Conference on Aging, President Clinton announced that as part of the Vice President's Reinventing Government initiative, the Administration has formed a multi-state effort to identify cases of Medicare/Medicaid fraud, and to prosecute and punish those who willingly cheat the government and victimize the public.

We call it "Operation Restore Trust." This is the first step in our aggressive plan to reduce fraud, waste and abuse in the Medicare and Medicaid programs. We will shortly be sending you a legislative proposal to insure strong investments for this effort. We look forward to bipartisan support for this important legislation.

The first step we've already taken is an unprecedented partnership of federal, state and private agencies in five states with nearly 40 percent of all Medicare and Medicaid beneficiaries: New York, Florida, Illinois, Texas and California.

For every dollar we spend on Operation Restore Trust, we will save six to eight dollars in reduced spending and court awards. It is an effort that makes fiscal sense and will assure all Americans that we will not tolerate these crimes against our seniors.

It includes a voluntary disclosure pilot program that will allow companies to come forward with evidence of fraud or errors they have discovered within their own organizations.

Participation by the public, including physicians and beneficiaries, will be crucial to the success of Operation Restore Trust. A special hotline for the public to report fraud and abuse will be put into effect later this month.

Our responsibility to our seniors is one that this Administration takes very seriously. Operation Restore Trust is part of that responsibility; the solvency of the Health Insurance Trust Fund is another.

Mr. Chairman, turning to the matter of today's hearing, I want to quote the great words of Franklin Delano Roosevelt, who gave voice and vision to America's desire to provide income and health security to older Americans.

Roosevelt once wrote that, as Americans, "we always hope ... there is a better life, a better world, beyond the horizon."

It is reaching that horizon – and protecting our older Americans – that brings us here today.

As you know, my fellow Medicare Trustees and I recently reported that the HI Trust Fund will be depleted in the year 2002.

The Clinton administration believes that this is a major problem that deserves serious bipartisan attention.

Let me begin by describing the HI Trust Fund and the services it supports for older Americans.

The HI Trust Fund primarily pays for in-patient hospital care and also covers expenditures for home health services, skilled nursing care, and hospice care.

In 1994, it paid for \$104.5 billion dollars in services for 32.5 million aged and 4 million disabled beneficiaries.

The Trust Fund is financed primarily by payroll taxes: Employees contribute 1.45 percent of wages, and there is a matching contribution by employers.

However, in the years to come, Trust Fund expenditures are projected to rise more rapidly than Trust Fund revenues.

This is because of a current and anticipated increase in the number and complexity of medical services.

Driving the expected imbalance between expenditures and revenues is the demographic shift that will occur with the aging of the baby boom generation.

As that shift occurs, a larger percentage of our population will be eligible for Medicare, and a correspondingly smaller percentage will pay the taxes that support the Trust Fund.

What does this mean? The 1995 HI Trustees Report projects roughly another 7 years of solvency.

The fund is exhausted in 2002.

These are well-understood trends:

Over the past 15 years, the Trustees have projected the date of insolvency to be anywhere from 1987 to 2005, and each year they recommend that Congress take action to protect the fund.

When this President took office on January 20, 1993, he inherited an escalating deficit and a Medicare Trust Fund that was projected to be insolvent in 1999.

Twenty-seven days later he proposed and then helped to pass a historic deficit reduction plan – the Omnibus Budget Reconciliation Act of 1993 (OBRA 93) – that included several strong policies to strengthen the economy and the Trust Fund.

Indeed, these proposals pushed out the insolvency date by three full years.

The fact is, any significant changes in Medicare – whether in the financing, eligibility, benefit provisions or payment rates – will affect the entire health care system.

Therefore, this administration believes that strong action to avoid depletion of the HI Trust Fund should not be undertaken by looking at Medicare alone.

Instead, we must consider this issue in the larger context of health reform, as the Trustees recommended.

We need an approach to protecting Medicare that is both bold and balanced.

The President has repeatedly called for meaningful bipartisan action on health reform.

Some incremental measures have been proposed which may help but are far from sufficient.

For example, we support managed care as one of the choices available to Medicare beneficiaries. This Administration has been aggressive in expanding HMO enrollment by Medicare beneficiaries. And we are seeking ways to improve the choices for Medicare beneficiaries, including the development of a new PPO option.

Over all, managed care enrollment is currently growing at an average rate of over 1 percent per month over the last year. In addition, 74 percent of all Medicare beneficiaries have a least one managed care plan available in their area.

However, we do not believe that financial coercion should be used to force seniors into HMOs.

Neither do we believe that managed care is the cure to all the troubles of the Trust Fund.

Even the Congressional Budget Office acknowledged that managed care will not achieve the savings required to maintain the Trust Fund's solvency.

Medical Savings Accounts (MSAs) have also been suggested as a way to help the trust fund.

Generally, MSAs would replace Medicare with catastrophic-only coverage. They would give beneficiaries tax incentives to save for all of their other health care expenses. Usually that would amount to the first several thousand dollars per year.

While MSAs might have some appeal to the young, healthy and wealthy, most of our seniors are none of these.

There also has been talk of Medicare vouchers. In such a scheme, Medicare's guarantee of coverage would be replaced with a check – of a fixed amount – that seniors would use to shop for insurance.

Our concern is that vouchers have the potential of leaving our chronically ill seniors, who are the most vulnerable and whose treatment is the most expensive, without effective coverage.

Let there be no mistake, solutions focused solely on Medicare could cause great harm. Let me give you a few examples:

Reductions in payments to providers would have significant effects on their overall financial condition.

This is especially true for facilities whose patients are predominantly Medicare beneficiaries or uninsured persons, whether located in inner cities or rural areas.

In fact, large reductions in Medicare payments would have a devastating effect on urban hospitals that already are providing a disproportionate share of uncompensated care.

Large reductions in Medicare payments could also endanger rural hospitals.

Nearly 10 million Medicare beneficiaries (25 percent of the total) live in rural America where there is often only a single hospital in their county.

These rural hospitals tend to be small and serve primarily Medicare patients.

Significant reductions in Medicare revenues will cause many of these hospitals, which already are in financial distress, to close or to turn to local taxpayers to increase what are often substantial local subsidies.

For example, in 1993-94, for 56 percent of rural hospitals Medicare payments were less than the hospitals' costs for treating their Medicare patients. For 29 percent of rural hospitals, their total revenues did not meet their costs.

Rural residents are more likely than urban residents to be uninsured, so the practice of offsetting the effects of Medicare cuts by shifting costs to private payers is more difficult for small rural hospitals.

Moreover, rural hospitals are often the largest employer in their communities; closing them will result in job loss and physicians leaving these communities.

Other providers may shift their costs onto payers who do not have the market power to negotiate advantageous rates.

This means that ultimately many small businesses and individuals – those Americans who are already paying the highest health insurance premiums – will shoulder even larger shares of health care costs.

Large cuts in Medicare could also hurt beneficiaries – about 75 percent of whom have incomes below \$25,000 dollars.

For the typical beneficiary, out-of-pocket health costs represent 21 percent of income.

Increasing out-of-pocket costs would be the equivalent of reducing their Social Security. Dr. Chater will provide you with more information about the income position of Social Security recipients.

Attempts to restore the solvency of the Trust Fund cannot undermine our commitment to provide health security for older Americans – right now and in the future.

Mr. Chairman, we cannot destroy Medicare in order to save it.

The Administration takes seriously its responsibility to current and future Medicare beneficiaries to insure the solvency of the Trust Fund.

The Health Care Financing Administration (HCFA) continues to make many program changes to improve the efficiency of the Medicare system.

As a result, on a per enrollee basis, Medicare grew at a slower rate than the private sector between 1984 and 1993 – 7.7 percent compared to the private sector's 9.8 percent.

Medicare continues to compare favorably with the private sector.

For the years 1996 to 2000, CBO projects that the average annual per capita growth rate for Medicare will be 8.2 percent. This rate only slightly exceeds the growth rate of 7.2 percent for private health insurance.

As we address these issues, we must remember that Medicare does not stand alone.

It is an integral part of a larger health care system, as well as the federal budget. Therefore, the Congressional budget process cannot be divorced from the attempt to assure the solvency of the Trust Fund.

We continue to insist that incremental health reform – and not tax cuts for wealthy Americans – should be the context for long-term solutions to the problems of the Trust Fund.

Last week, in his speech at the White House Conference on Aging, President Clinton challenged all of us to put aside partisan differences and address the long-term needs of Medicare and Medicaid.

He was very clear in saying that he does not support the status quo.

And he was equally clear in saying that he does not support proposals that will slash these programs and worsen the health care available to hard working American families.

He emphasized that we must put the American people first.

Let me quote the President when he said, "I will evaluate proposals to change Medicare and Medicaid based on the issues of coverage, choice, quality, affordability and costs."

With these principles in mind, we look forward to working with the Congress to develop lasting solutions to Medicare's fiscal problems – to reaching for a horizon in which all Americans enjoy long-term health security.

Thank you, and after Dr. Chater's statement, we would be happy to answer any questions you may have.