

MEMORANDUM

dup

TO: Carol
FR: Chris J.
RE: Medicare/Medicaid Growth Rate Comparisons
cc: Jen and Jeremy

July 17, 1995

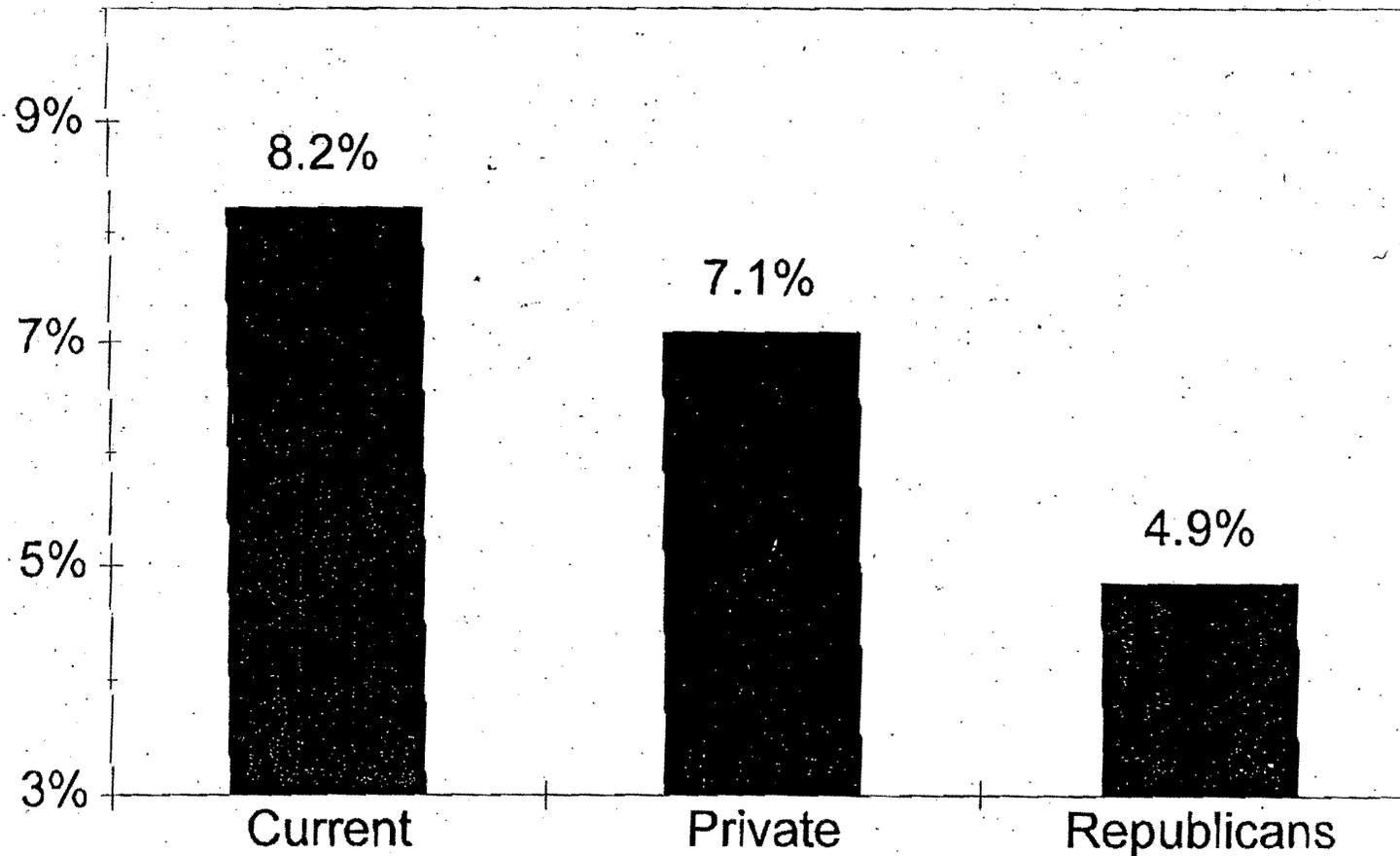
Attached you will find a set of charts and background information on Medicare/Medicare growth rate comparisons with the private sector. Since everyone is working off the CBO baseline, I had our HHS folks do our estimates working with the CBO model/numbers.

As you will note, CBO projected private sector per capita baseline over the next 7 years is running at 7.1 percent. If the Republican cuts were enacted, the Medicare/Medicaid per capita growth rates would be running at 4.9% and 1.4% respectively.

These numbers have been reviewed by OMB, but not yet finally cleared. I would say, however, that I am confident enough in them to give them to you for your use.

One last point, because the Medicaid baselines are so different, we recommend NOT attempting to try to project an Administration proposal growth rate onto the CBO baseline. However, it is important to note that our Medicare growth rate number (if you assume \$124 billion off of the CBO baseline) is 6.4% -- also less than the 7.1% CBO projection for the private sector growth rate. At this point, I would recommend against talking about our growth rates -- either Medicare or Medicaid -- on an assumed CBO baseline.

Medicare Growth Per Beneficiary: Effects of the Republican Proposal 1996-2002

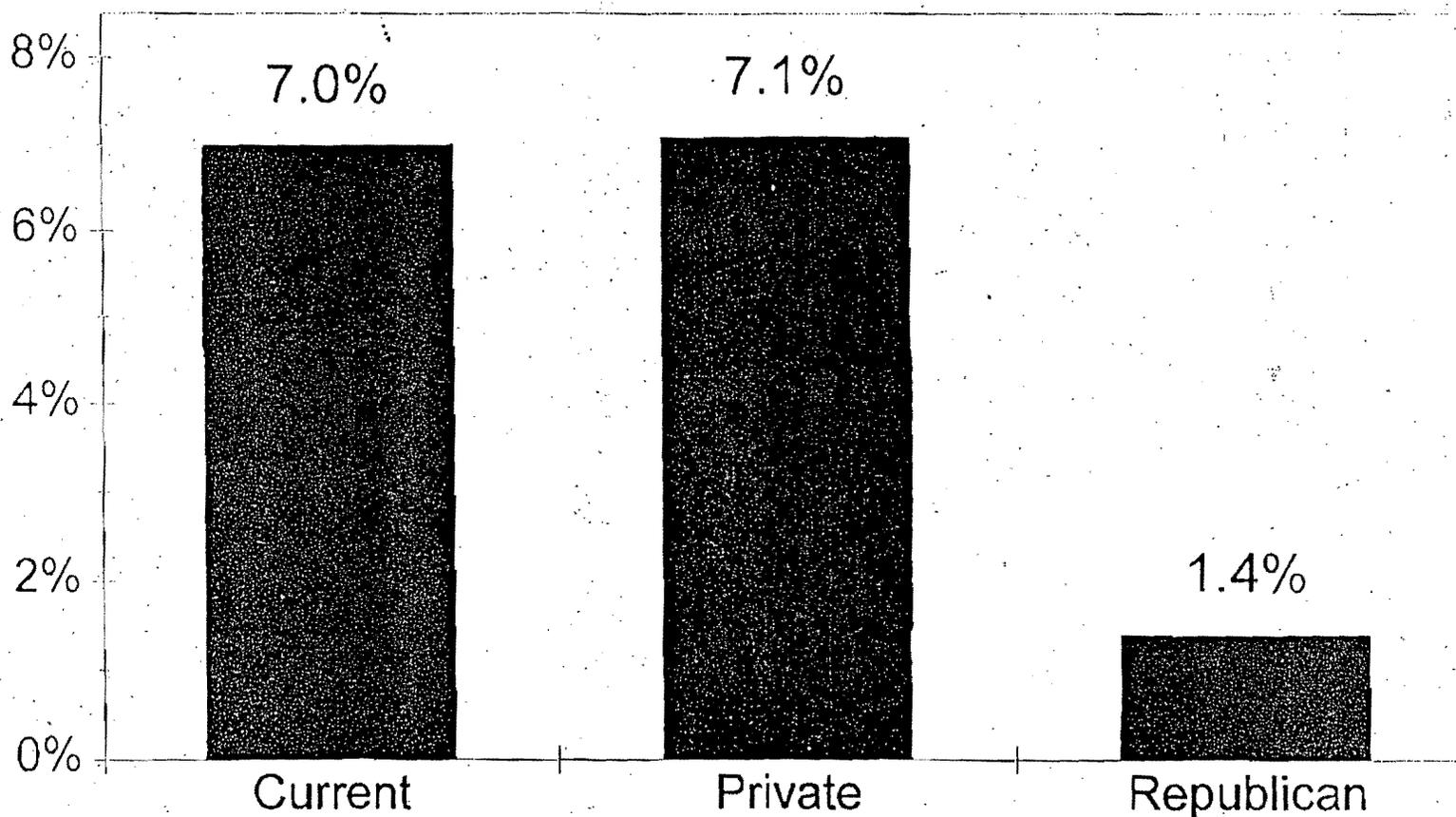


All estimates are calculated by the Administration using CBO data.

Medicaid Growth Per Recipient

Effect of the Republican Proposal

1996-2002



All estimates are calculated by the Administration using CBO data.

MEDICARE SPENDING AND GROWTH RATES UNDER THE REPUBLICANS' BALANCED BUDGET PROPOSAL

The Republicans have proposed that Medicare spending can be reduced by \$270 billion between 1996 and 2002 in their Balanced Budget Proposal.

MAGNITUDE OF THE CUTS

- **Medicare cuts are 33% of all spending reductions under the Republicans' Proposal.** Although the Medicare beneficiaries represent about 13% of the U.S. population and Medicare is 11% of the Federal outlays, Republicans have proposed that over 33% of the savings from policy change leading to deficit reduction will come from Medicare.
- **Almost all Veterans's Benefits would have to be eliminated to equal the size of the Medicare cuts.**
To get a sense of how large \$270 billion is, the Congressional Budget Office projects that Veterans' Benefits will cost about \$280 billion between 1996 and 2002. Ninety-five percent of government spending on Veterans would need to be eliminated to equal the size of the Medicare cuts.
- **Republicans would reduce Medicare spending by 14%.**
The cuts proposed by the Republicans represent a 14% reduction in Medicare spending between 1996 and 2002. This is 20% in 2002 alone. If service reductions were the only way to achieve \$270 billion dollars in savings, then Medicare could no longer cover home health and the skilled nursing facility services under the Republican proposal.

SPENDING PER BENEFICIARY

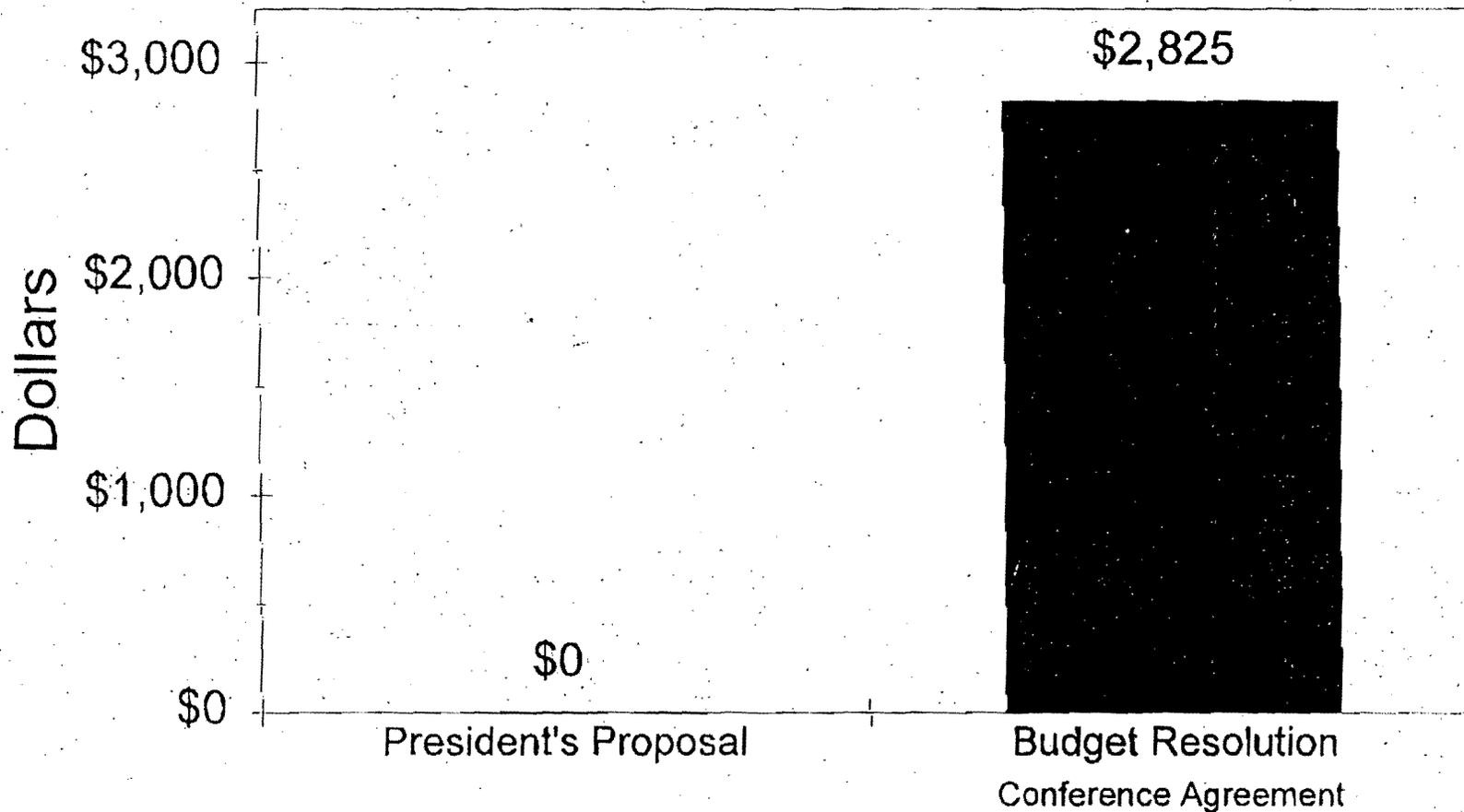
- **Medicare spending per beneficiary will fall by \$1,700 by 2002 under the Republican Proposal.**
Under current law, total Medicare spending will be \$274 billion in 2002, or \$8,350 per beneficiary. The projected Medicare spending per beneficiary after the Republican cuts would be \$6,650, or \$1,700 less.
- **Republicans cuts would add billions to older American's already high costs.**
Currently, older Americans spend 21% of their income on out-of-pocket health care costs. Assuming that the Republican cuts are divided equally between beneficiaries and providers:
 - In the year 2002 alone, each beneficiary could pay \$625 more in out-of-pocket costs than under the President's proposal; couples could pay \$1,250 more.

- Over the seven-year period, beneficiaries could pay an additional \$2,825 (\$5,650 per couple) out-of-pocket relative to the President's proposal.

GROWTH RATES

- **Republicans would reduce growth in spending per beneficiary by more than one-third.**
Growth in expenditures per recipient is expected to average 8.2% under the CBO baseline between 1996 and 2002. The Republican proposal would reduce this rate by over one-third to 4.9% over this same period.
- **Republicans' Medicare growth would be significantly slower than that of private spending per beneficiary.**
The Republican growth rate per beneficiary of 4.9% would be significantly lower than the private per recipient growth rate of 7.1%.
- **Republicans' Medicare growth would also be lower than medical inflation.**
Medical inflation (the medical component of the consumer price index (CPI)) is projected to be 5.3%, which is higher than the 4.9% projected under the Republicans' Proposal.

Increased Medicare Out-of-Pocket Costs Per Beneficiary, 1996 - 2002



The new Medicare proposals included in the President's June 14, 1995 budget announcement do not include any new beneficiary costs. Republican proposal adjusted to reflect the Part B premium extender in the President's FY 1996 budget. This chart assumes 50% of Republican cuts affect beneficiaries. US DHHS Estimates

BACKUP

Comparison of President's Proposal and Republican Conference Agreement

	Baseline	President	Republicans
Medicare savings as a percent of spending changes		30%	33%
Percent Reduction from Baseline:			
1996-2002		11%	20%
2002		7%	14%
Spending per beneficiary*	\$8,350	\$7,425	\$6,650
Growth Per beneficiary, 1996-2002	8.2%	6.4%	4.9%

*Adjusts to CBO baseline by subtracting Admin. estimated savings from CBO baseline spending.

AFL-CIO
815 Sixteenth Street, N.W.
Washington, D.C. 20006

DUPLICATE



Telecopier Transmission

Date: 7/26/95

FAX To: Chris Jennings

FAX Phone Number: 456-7028

From: Gerry Shea
Department: _____

Comments:

There is ~~are~~ 2 pages following this cover sheet. Please call the following number if you have any questions:

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July 26, 1995

MEMORANDUM

TO: Chris Jennings

FROM: Gerry Shea

RE: Medicare/Medicaid Hearings

I wanted to give you an updated list of cities, dates and participating members of Congress for our upcoming Medicare/Medicaid hearings:

<u>CITY</u>	<u>DATE</u>	<u>PARTICIPATING MEMBER OF CONGRESS</u>
Seattle	Aug. 22	Sen. Murray
Chicago	Aug. 24	Rep. Durbin Sen. Simon (tentative) Sen. Moseley-Braun (tentative)
Detroit	Last week of August	Rep. Dingell Sen. Carl Levin Rep. Sander Levin (All hopefuls)
Boston	Aug. 14 or Sept. ?	Sen. Kennedy
Miami	Sept. ?	Sen. Graham

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As I told you in previous phone conversations, I think these events would be much stronger with members of the Administration on the panel receiving testimony on the effects that large Medicare/Medicaid cuts would have.

Anything that you can do would be much appreciated.

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



Deep

PHONE: (202) 690-6870 FAX: (202) 401-7321

From: *Jenna*

Date: _____
To: *Chris*

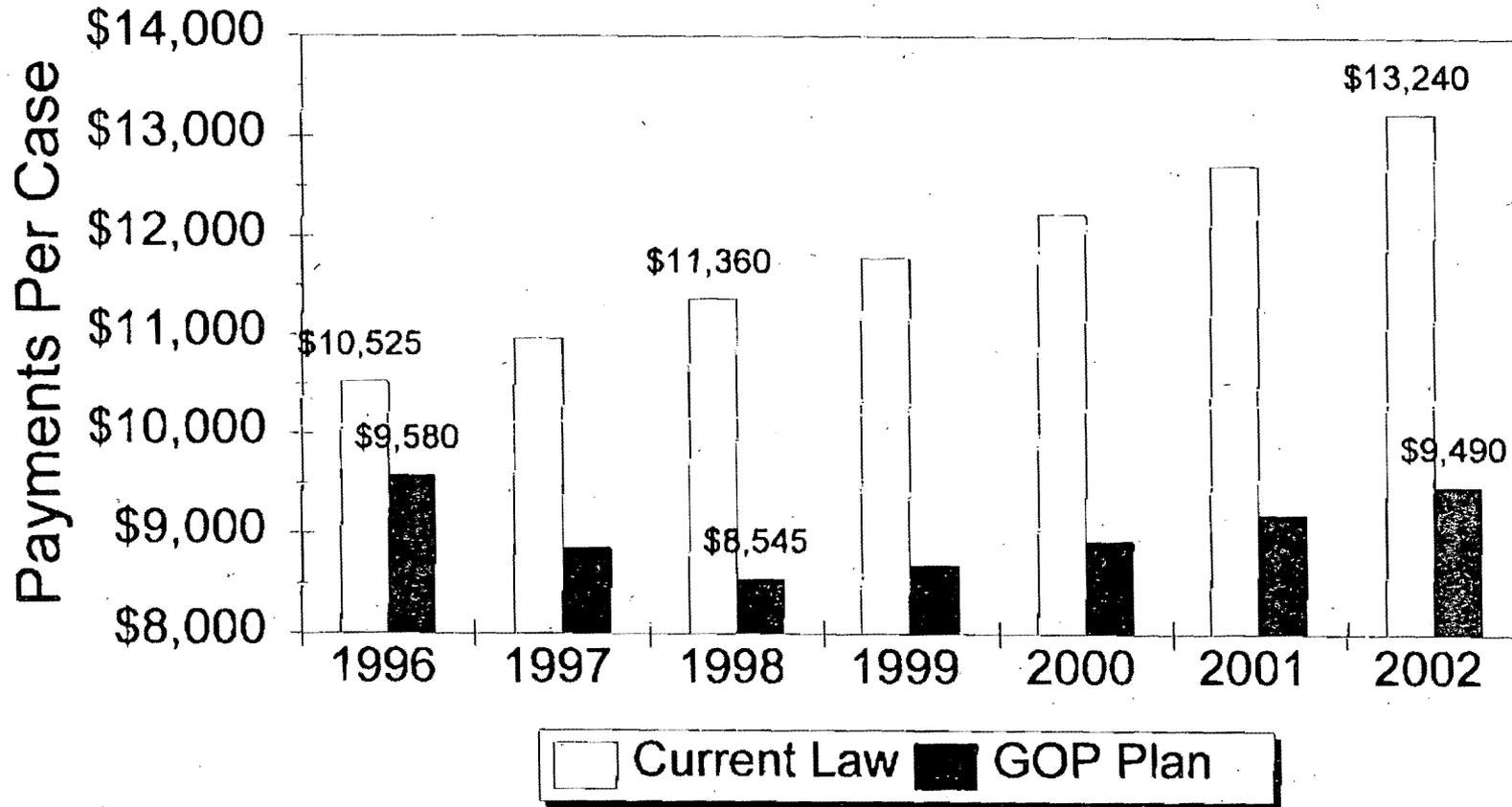
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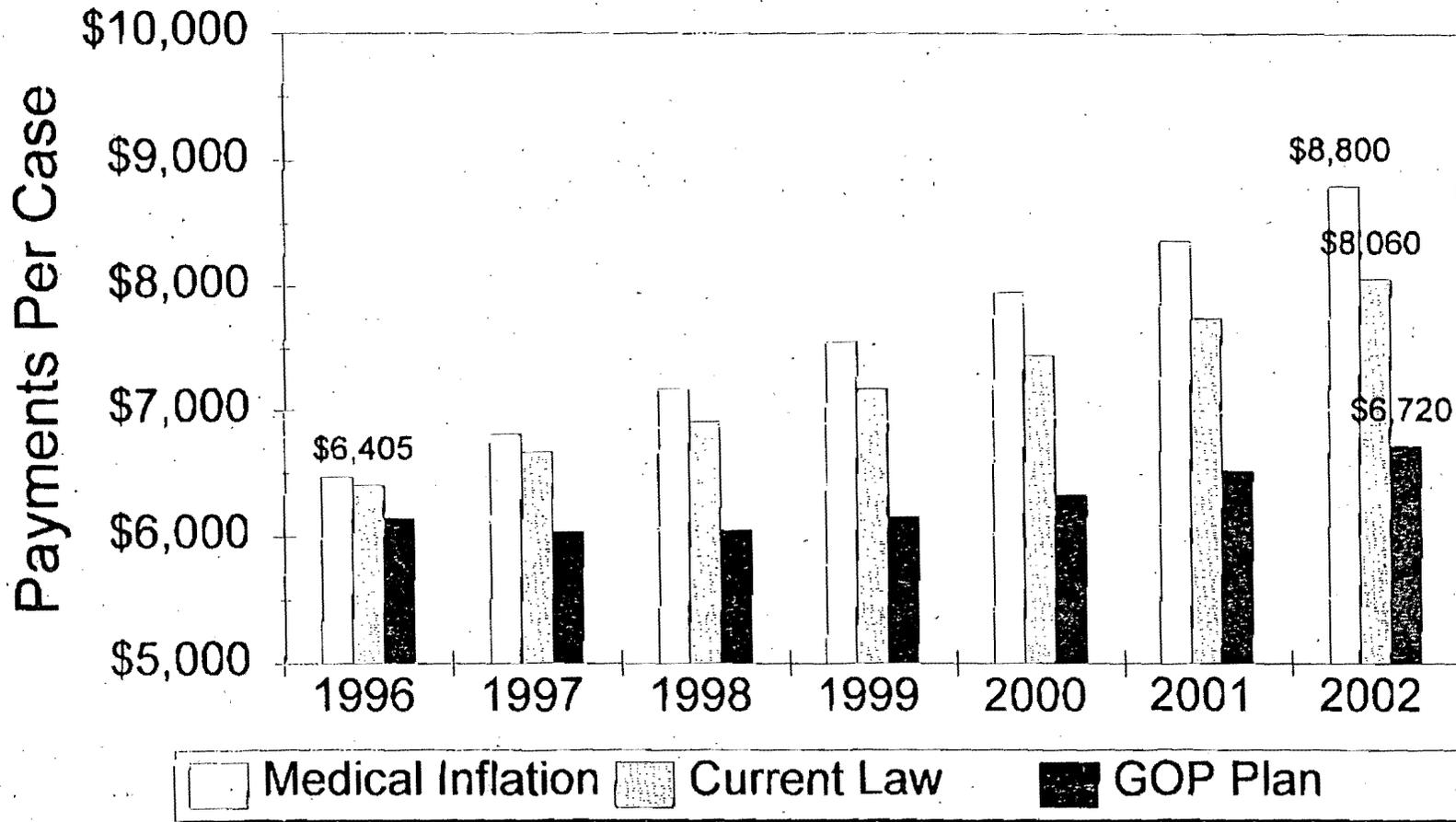
Comments: *HOSPITAL STUFF -*
Still waiting to hear
about the clearance/
distribution.

House Republican "Plan A" Means Real Cuts to Teaching Hospitals



For Teaching Hospitals with 100 or more residents
Includes cuts in IME, DSH & Hospital Updates only
Department of Health & Human Services estimates

House Republican "Plan A" Cuts Reduce Hospital Payments



Includes cuts in IME, DSH & Hospital Updates only
Department of Health & Human Services estimates



DUP

Democratic Policy Committee

H-301 The Capitol
Washington, D.C. 20515

202/225-6760
Fax: 202/226-0938

FACSIMILE COVER SHEET

To:	<u>Chris Jennings</u>
From:	<u>Annie King</u>
Fax #:	_____
Date:	_____
Pages:	<u>1 Follows</u>

Message:

As you requested. Tell me what you think. XXOO

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An Historical Look at the Medicare Trust Fund

- Republicans have been distorting issues surrounding the 1995 Medicare Trustees report ever since it was issued in April. According to the Republicans, this report -- in stating that the Trust Fund will reach insolvency in 2002 -- contains startling, brand-new news -- that ought to alarm America's seniors. In his latest alarmist tactic, on July 25, Speaker Gingrich called upon the President to send every Medicare beneficiary a copy of the report.
- What Speaker Gingrich fails to mention is that the 1995 Medicare Trustees report is actually more optimistic than the 1993 Trustees report and the 1994 Trustees report! The 1993 Trustees report stated that the Trust Fund would reach insolvency in 1999 and the 1994 Trustees report stated that the Trust Fund would reach insolvency in 2001. Where was Rep. Gingrich in 1993 and 1994?
- In fact, virtually every single Trustees report that has been issued since Medicare was created in 1965 has stated that the Trust Fund will become insolvent within a certain number of years -- from as soon as two years to as late as 21 years.
- However, throughout the 30-year history of the Medicare program, Congress has always acted to prevent the Trust Fund from ever actually reaching insolvency. Without fanfare, without scare tactics, and without hyperbole, Congress has acted to restore the Trust Fund's balance.
- The finding in this year's Trustees report that the Trust Fund will become insolvent in seven years is actually less dire than that of many previous years. Indeed, eight earlier Trustees reports have reported solvency of seven years or less.
- For example, in 1970, the Trustees reported that the Trust Fund would go broke in 1972.
- In 1972, the Trustees reported that the Trust Fund would go broke in 1976.
- In 1982, the Trustees reported that the Trust Fund would go broke in 1987.
- In 1993, the Trustees reported that the Trust Fund would go broke in 1999. But the Clinton Reconciliation Bill extended the solvency of the Trust Fund. So, in 1994, the Trustees reported that the Trust Fund would remain solvent until 2001, and in 1995, they reported the Trust Fund would remain solvent until 2002 -- instead of 1999.
- In 1995, as they have in the past, the Democrats in Congress -- without fanfare, without scare tactics, and without hyperbole -- are prepared to once again enact legislation to address the Trust Fund's most recent solvency problem -- once massive tax cuts for the wealthy are taken off the table and once Medicare is taken out of reconciliation. }

BOLD

DRAFT

**TALKING POINTS FOR
SIGNING HR 483 (MEDICARE SELECT)**

- ▶ By extending and expanding the Medicare SELECT demonstration to all 50 states, this bill allows Medicare beneficiaries to continue to voluntarily purchase Medicare SELECT policies, which are special types of Medicare supplemental health insurance. SELECT enrollees agree to use a restricted provider network in exchange for premiums that are typically lower than those of regular Medicare supplemental health insurance policies.
- ▶ While I am signing this bill, I remain concerned about issues raised in the preliminary results of our evaluation of the demonstration, particularly the potential for Medicare cost increases and concerns about the requirements for quality of and access to care in the SELECT networks.
- ▶ The Medicare SELECT debate during this Congress has also raised awareness of problems associated with the use of attained-age rating for establishing premiums. Under this type of rating methodology, the insurer adjusts the premiums based on the beneficiary's age. This means that a policy may be sold at what appears to be a bargain rate when the beneficiary is younger, but that it becomes rapidly unaffordable in later years when the policy may be needed the most. Although SELECT policies have been touted by some as a "great value," I am concerned that the use of attained-age rating may exaggerate the reported value of these products.
- ▶ While we are committed to expanding and improving choices for Medicare beneficiaries, we want to do it the right way. We will be closely watching this program as it is expanded to the additional states and will not hesitate to return to the Congress if the final evaluation results do not demonstrate that this new option is a true value for Medicare beneficiaries.

Naan Am / Moh Moh

I thought I found this over
to you on Monday, but I guess
my fax was not working. It is a
draft statement that Peter Hickman
did in case we needed some language on Subject.
Since you ~~are~~ are doing this, now for POTUS,
I thought it might be helpful
to you. Call me w/ questions

EFFECTS OF REPUBLICAN MEDICARE CUTS

- Republicans have proposed to cut Medicare funding by \$300 billion between now and 2002 -- a 24% cut in 2002 alone.
- If cuts these were allocated so that beneficiaries bore 50% of the burden and health care providers bore the remaining 50%:
 - ▶ Elderly and disabled beneficiaries who were enrolled in Medicare between 1996 and 2002 would have to pay about \$3,750 more for Medicare. In 2002 alone, they would be required to pay about \$1000 more.
 - ▶ In 2002 alone, a 12% cut in Medicare payments to hospitals, physicians and other health care providers would be needed.
- Medicare managed care cannot produce the magnitude of savings being proposed by the Republicans.
 - ▶ Claims that substantial savings can be achieved through Medicare managed actually rely on capping federal contributions or on charging beneficiaries more to stay in fee-for-service Medicare.
 - ▶ CBO testified in January that expanding enrollment in managed care plans under the current system would be unlikely to reduce federal costs, and that the necessary changes to the existing payment system would be "difficult to specify."
 - ▶ Even with an improved payment methodology, the savings to Medicare would be only small percentage of cuts being proposed by Republicans.
- Cuts of this magnitude would cause serious financial distress to the nation's medical system. Hospitals and other providers would still bear the growing burden of uncompensated care.
 - ▶ There are now 40 million uninsured Americans, and this number will continue to grow.
- Huge Medicare cuts, combined with the growing uncompensated care burden, will force providers to shift costs to business. And because their disadvantage in the insurance market, small business will bear the brunt of this cost shift.
- Reducing Medicare payments would disproportionately harm rural hospitals.
 - ▶ Small rural hospitals -- often the only hospital in their county -- depend heavily on Medicare as a source of revenue. Many of these hospitals already are in financial difficulty and cannot absorb large Medicare payment

reductions.

- In the last Congress, bills sponsored by both Republicans and Democrats contained large Medicare cuts. However, unlike current Republican proposals, the bills last year reinvested their savings into the health care system through subsidies to expand insurance coverage. Reinvesting the savings would have reduced the uncompensated care burden on provider and business and mitigated many of the adverse effects of Medicare cuts.
- Despite the current rhetoric, Medicare 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 growing only about 1% 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.

EFFECTS OF CAPPING MEDICAID

IMPACT OF CUTS

- Medicaid is a safety net for over 35 million mothers and children, the elderly, and people with disabilities.
- Republicans have proposed (through the use of a block grant with a 5% cap on growth) to cut federal Medicaid funding by more than \$190 billion between now and 2002 -- a 30% cut in 2002 alone.
- Though the Republicans claim that all they are doing is providing added flexibility to states, what they are really doing is cutting \$190 billion in critical health care services.
- Managed care savings cannot offset even a small portion of these cuts. Even under optimistic assumptions, managed care could produce only about \$10 billion in savings between now and 2002. The remaining \$180 billion in cuts proposed by the Republicans would have to come from deep cuts in payments to health care providers, benefits and eligibility.

If the \$180 billion were divided equally among cuts in health care provider payments, benefits and eligibility:

- ▶ Total payments to hospitals, physicians and other providers would be cut by \$60 billion between now and 2002. The cut in 2002 alone would be about \$17 billion.
- ▶ Eliminating outpatient prescription drugs would roughly offset one-third of the cuts in 2002.
- ▶ And, in 2002, eliminating coverage for roughly 2.5 million mothers and children and over three-quarters of a million elderly and disabled together would offset the remainder of the cuts.
- Even these dramatic figures probably understate the true level of cuts under the Republican proposals, since states, like the federal government, are looking to spend less on Medicaid, not more. Under Republican block grant proposals, states could save money only if they cut **more** than \$190 billion out of Medicaid.

VARIATION ACROSS STATES

- An across-the-board 5% cap on Medicaid spending does not recognize significant differences across states, leaving some states even harder hit than these numbers suggest.
 - ▶ Growth rates vary significantly across states and over time in a given state. Across states, variation results from differences in population, regional medical costs, enrollment patterns, and service mix. Over time, a state's growth rate can change because of recession or other economic factors.
 - ▶ When a recession occurs in a state, the number of people without work that qualify for Medicaid can rise dramatically, increasing program costs. With a cap on Medicaid, states would bear this burden.
 - ▶ Ironically, states with the most efficient programs are most penalized by a 5% cap -- because it is hardest for them to find additional savings.

- ▶ Retirement states with large numbers of elderly residents would bear a disproportionate burden as the population ages.
- A new analysis of Medicaid block grants conducted by the Urban Institute for the Kaiser Commission of the Future of Medicaid finds that a 5% cap on the growth of federal Medicaid payments would cost states over \$167 billion between 1996 and 2002. [Note: This estimate is less than the CBO baseline estimate].
 - ▶ New York, California, Texas, Florida and Ohio would lose the largest amounts. New York would lose \$18.5 billion, California over \$14 billion, Texas almost \$11 billion, Florida \$9.5 billion, and Ohio over \$7 billion.
 - ▶ States in the South and Mountain regions would have the biggest percentage reductions in federal payments. Reductions during the period would average over 20% in states such as Florida, Georgia, Arkansas, Colorado, Montana, West Virginia and North Carolina.

NO EVIDENCE THAT THIS LEVEL OF GROWTH IS ACHIEVABLE WITHOUT SEVERE CUTS

- Republicans claim that managed care can generate enormous savings. But, there is no evidence that managed care alone can achieve the level of cuts they are proposing.
 - ▶ States already are aggressively pursuing managed care, but the populations for whom care can readily be managed -- children and AFDC adults -- account for less than one-third of total Medicaid spending. And, over one-third of these recipients already are in managed care.
 - ▶ Applying managed care techniques to the services typically used by the elderly and disabled (such as long-term care) is largely untried, making the potential for savings hard to predict.
 - ▶ The potential for managed care savings also varies tremendously across states. States that have already applied managed care broadly will be less able to achieve additional savings. In rural states, where HMO coverage is not readily available even in the private sector, efficient managed care also is not a real option.
- Some may point to low Medicaid growth rates in certain states as evidence that a 5% cap on growth is achievable.
 - ▶ While a few states may be able to hold growth down to 5% for a few years, no state has demonstrated the ability to sustain such a low growth rate for any significant period of time.
 - ▶ Since 1992, 19 states have applied for state-wide health reform demonstration waivers from the Department of Health and Human Services. Under these waivers, states are able to change their Medicaid programs to increase efficiency and expand coverage. No state has projected an annual growth rate over the period at or below 5%.
- Republicans justify these cuts by claiming that Medicaid spending is out of control, but the facts show otherwise. The truth is that both the Congressional Budget Office and the Administration project that Medicaid spending per person will grow no faster than health insurance spending in the private sector.

Talking Points

on Republican Budget Proposals:

"A Broken Contract with American Families and Their Parents"

May 10, 1995

INTRODUCTION

- As you all know, Republicans made a big promise:

They promised to balance the budget without hurting anyone and without raising taxes -- while giving a huge tax cut to the wealthy.

- Guess what? They broke their promise.

-- 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 science and technology -- 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 such other entitlements as veterans' and farm programs.

-- In terms of tax increases.

- Republicans are proposing to raise taxes on millions of 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

- 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.

-- Domenici's Medicare cut is the largest single cut in any one program.

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

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

Limits to Medicare/Medicaid Growth Rates

- Republicans imply that Medicare and Medicaid are growing out of control, but in fact they are growing at the same per-person rate as private health plans.

- Republicans are proposing to force Medicare spending down, but to ignore health reform in general.

- In effect, they are proposing to make Medicare a "second class" health care system -- it would provide low-quality care and restricted access.

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

- Specifically, 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, is a real cut with real consequences.

-- 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

Medicare Cuts:

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

- between ~~\$745~~ and ~~\$1,030~~ more in out-of-pocket costs in 2002; and

- between ~~\$3,175~~ and ~~\$3,445~~ 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 increases in Medicare cost sharing and premiums.

- About 2 million beneficiaries would have 100 percent or more of the COLAs eaten up by increases in 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:

- 7 million children would lose coverage;
- 1 million elderly and disabled would lose coverage; and
- Tens of millions of Americans would lose important benefits, such as home care, hospice, and preventive screening services for children.
- Provider payments would be reduced by almost \$13 billion.

Managed Care and Savings

- Republicans claim that they can produce significant savings by giving beneficiaries more managed care choices simply are not true.

-- As CBO reported recently, achieving savings in Medicare without financial coercion would actually reduce managed care enrollment.

-- So, to get both more beneficiaries in managed care and large savings for Medicare, some form of coercion - - such as making it more expensive for beneficiaries to stay in Medicare fee-for-service -- would be needed.

Impact on Providers

- Large reductions in Medicare payments would have a devastating effect on a significant number of urban safety-net hospitals.
 - For large urban public hospitals, which are heavily used by Medicaid and self-pay patients, Medicare is an important source of adequate payment. According to the 1994 Special Report of the National Association of Public Hospitals, while Medicare in 1991 was the payer for only 11 percent of discharges in these institutions, it accounted for almost 20 percent of net operating revenues.
- 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 to 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.

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

EITC:

- 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.

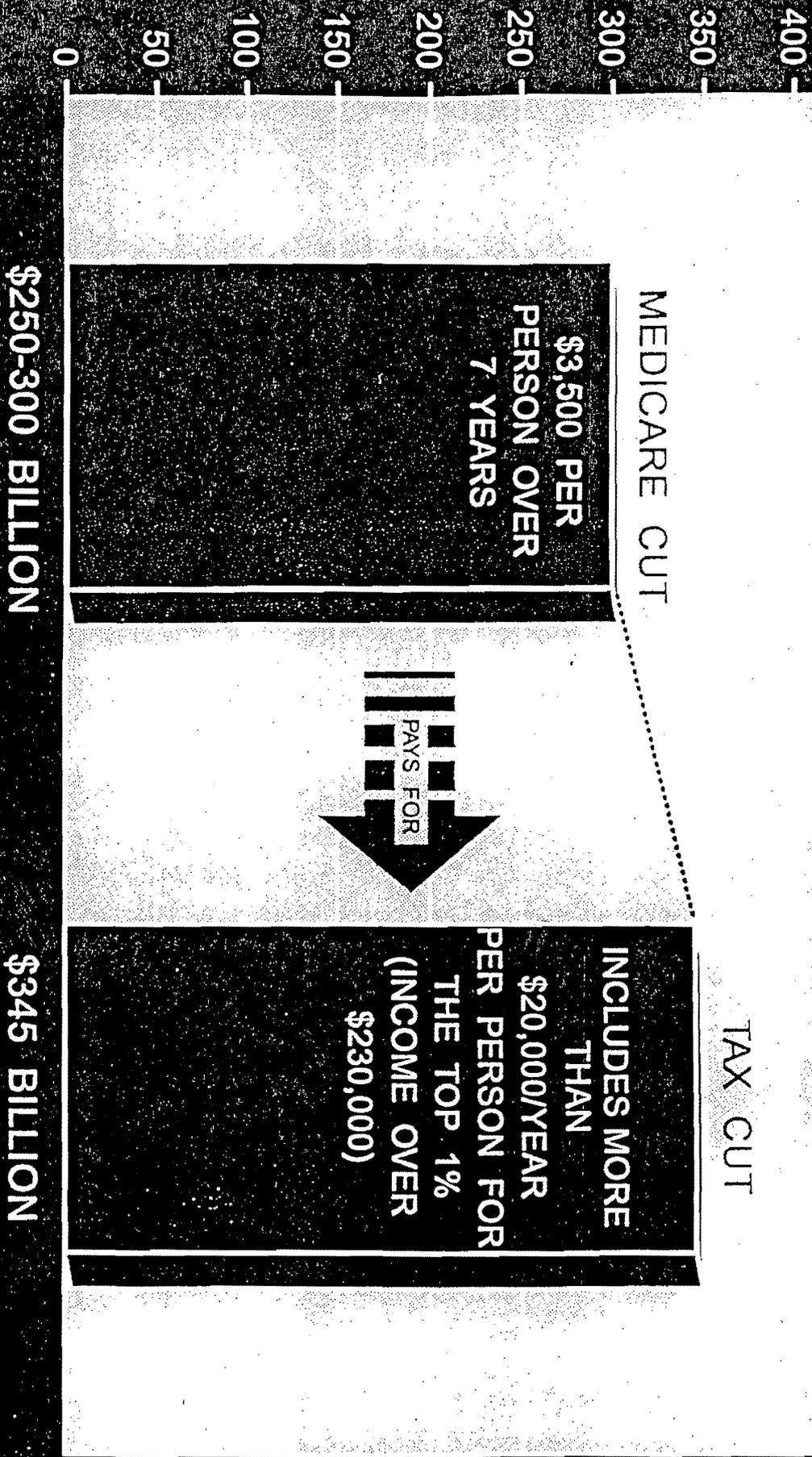
Economic Implications of Republican Budget Plans:

(to be provided by Laura Tyson)

CUTTING MEDICARE TO PAY FOR TAX CUTS FOR THE WEALTHY

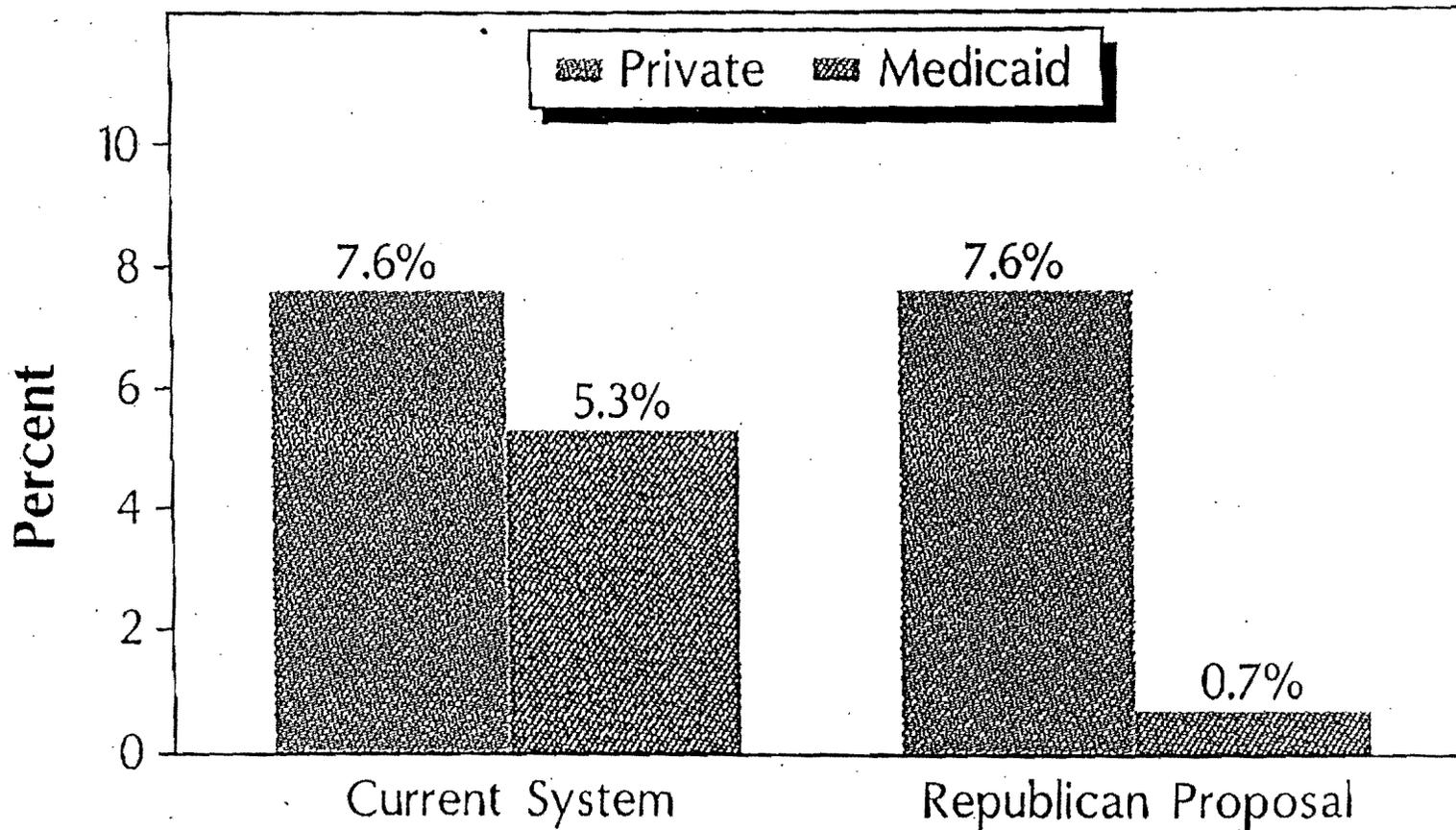
(FY 1996 - 2002)

DOLLARS IN BILLIONS



Per Capita Growth Rates

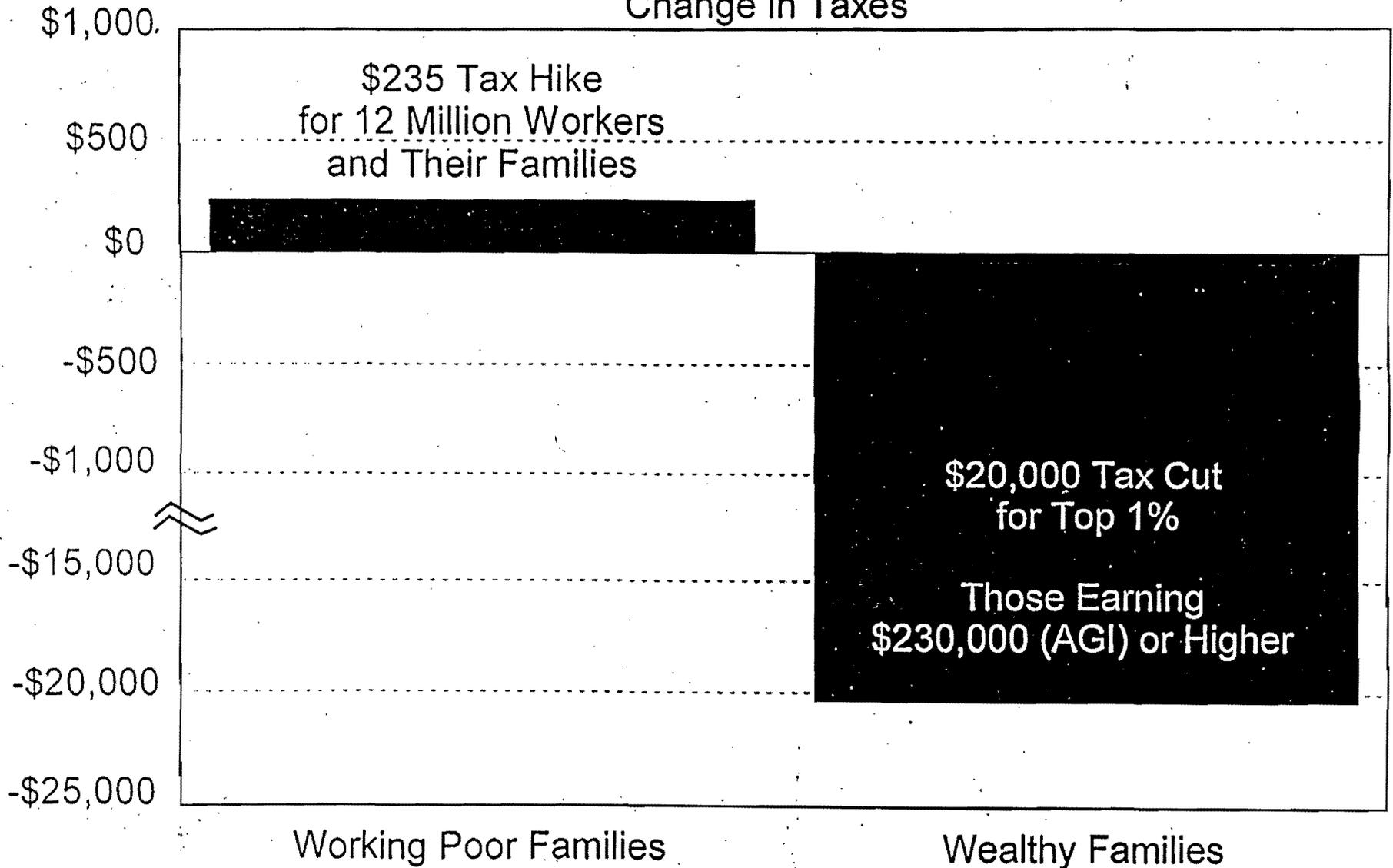
Private and Medicaid, 1996-2002



SOURCE: Administration baseline, calendar years

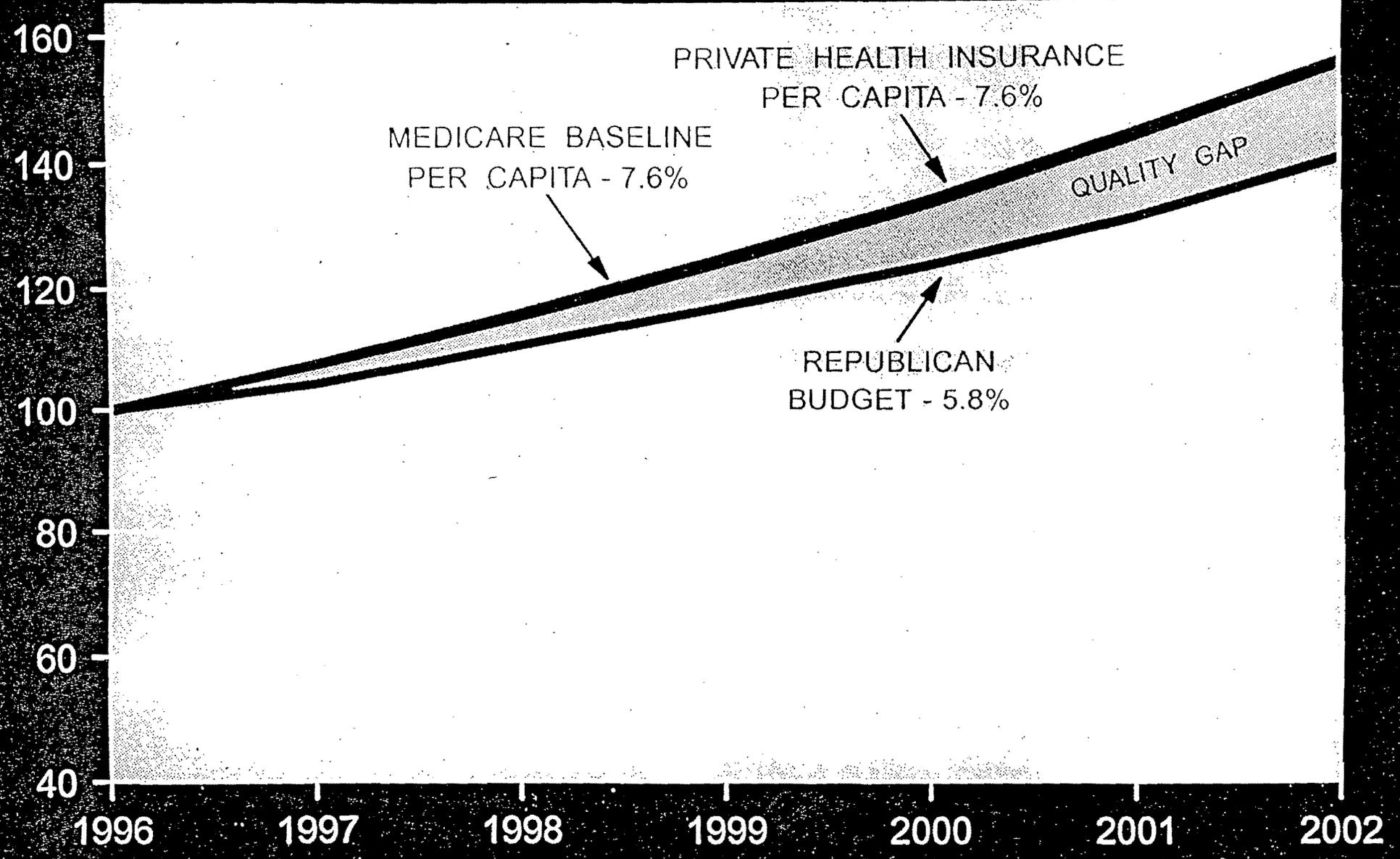
Republicans Cut Taxes for the Wealthy; Raise Taxes on Working Poor Families

Change in Taxes



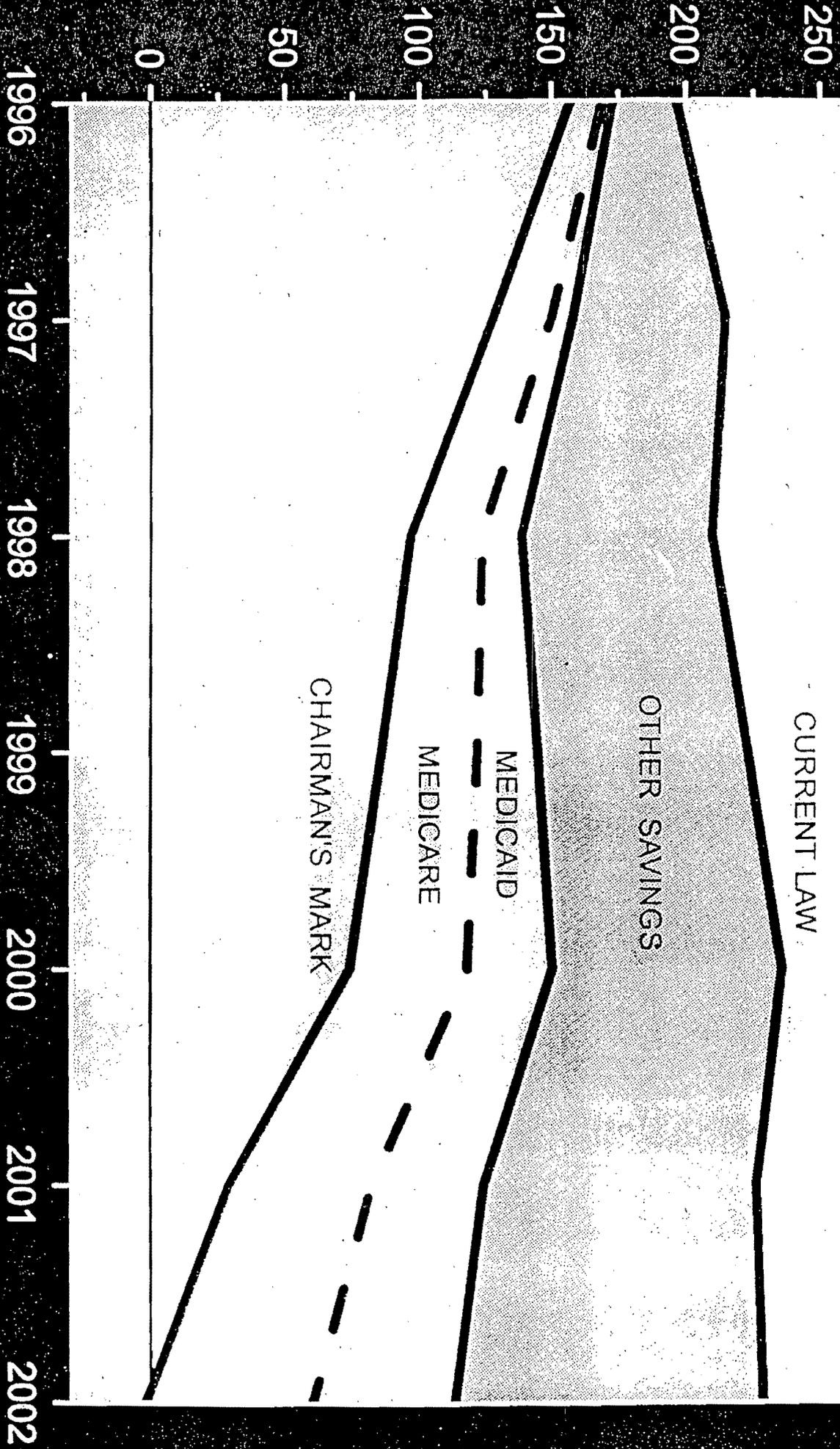
REPUBLICAN CUTS CREATE A MEDICARE QUALITY GAP FOR SENIORS

DOLLAR INDEX



MOST OF PROGRAMMATIC SAVINGS COME FROM MEDICARE / MEDICAID

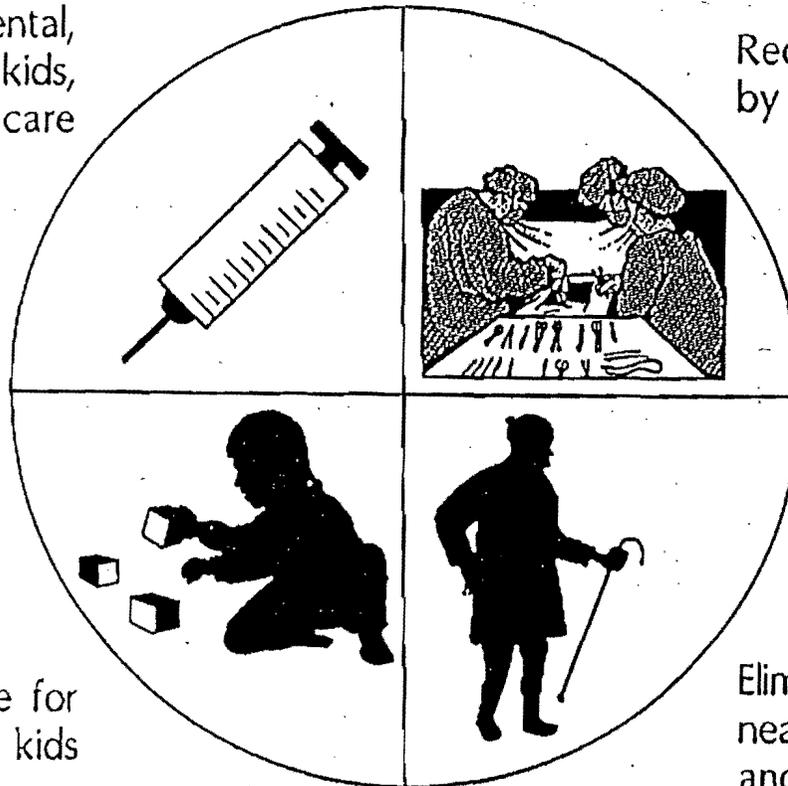
DOLLARS IN BILLIONS



Medicaid Cuts That States Would Be Forced to Make

2002

Eliminate coverage for dental,
screening services for kids,
and hospice and home care



Reduce provider payments
by almost \$13 billion

Eliminate coverage for
7 million kids

Eliminate coverage for
nearly one million elderly
and persons with disabilities

NOTE: Assuming 25% cut in each of these categories.

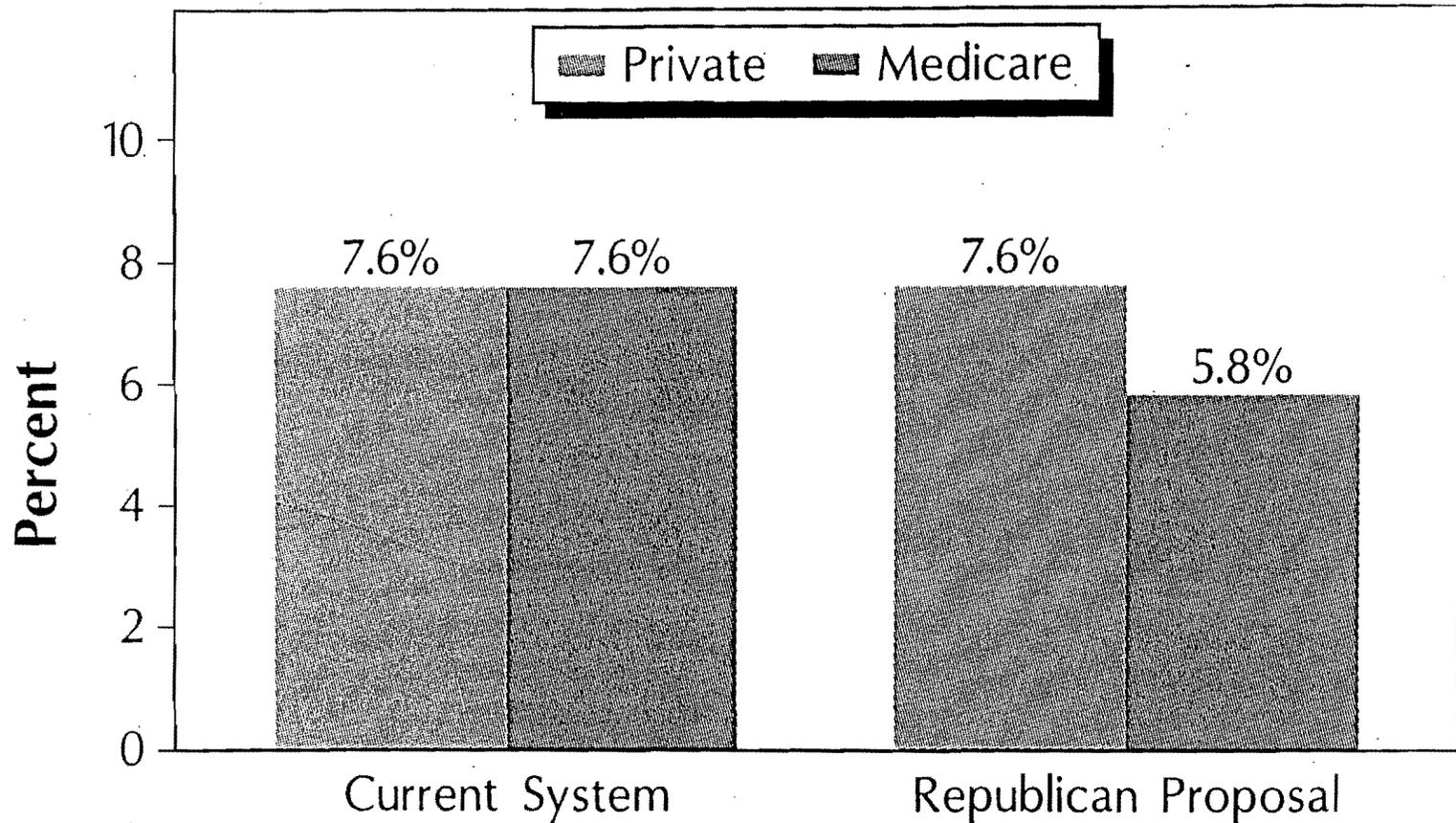
Comparison of Growth Rates: Calendar Years 1996 - 2002

	BASELINE		REPUBLICAN PROPOSALS	
	Admin.	CBO	Admin.	CBO
Private				
Total	8.1%	7.5%		
Per Capita	7.6%	7.2%		
Beneficiaries	0.4%	0.3%		
Medicare				
Total	8.9%	9.7%	7.1%	7.1%
Per Capita	7.6%	8.3%	5.8%	5.8%
Beneficiaries	1.3%	1.3%	1.3%	1.3%
Medicaid				
Total	9.3%	10.2%	4.5%	4.5%
Per Capita	5.3%	7.0%	0.7%	1.4%
Beneficiaries	3.8%	3.1%	3.8%	3.1%

SOURCES: HCFA National Health Accounts; HCFA Medicare & Medicaid Baselines
CBO: Projected National Health Expenditures, Medicare & Medicaid Baselines
Note: Medicaid recipient growth is from program data, since the NHA use unduplicated counts of recip and are thus lower than program data

Per Capita Growth Rates

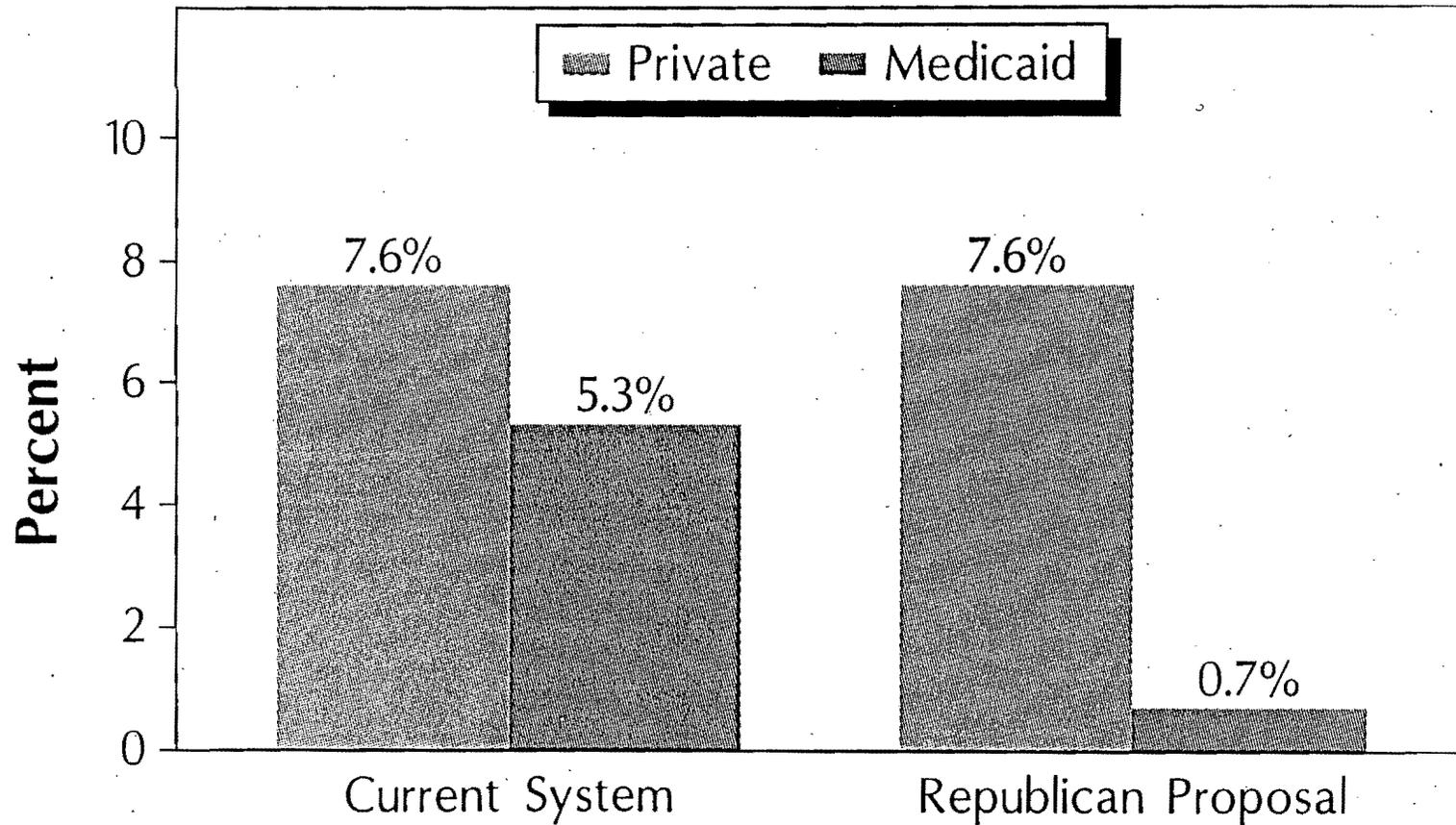
Private and Medicare, 1996-2002



SOURCE: Administration baseline, calendar years

Per Capita Growth Rates

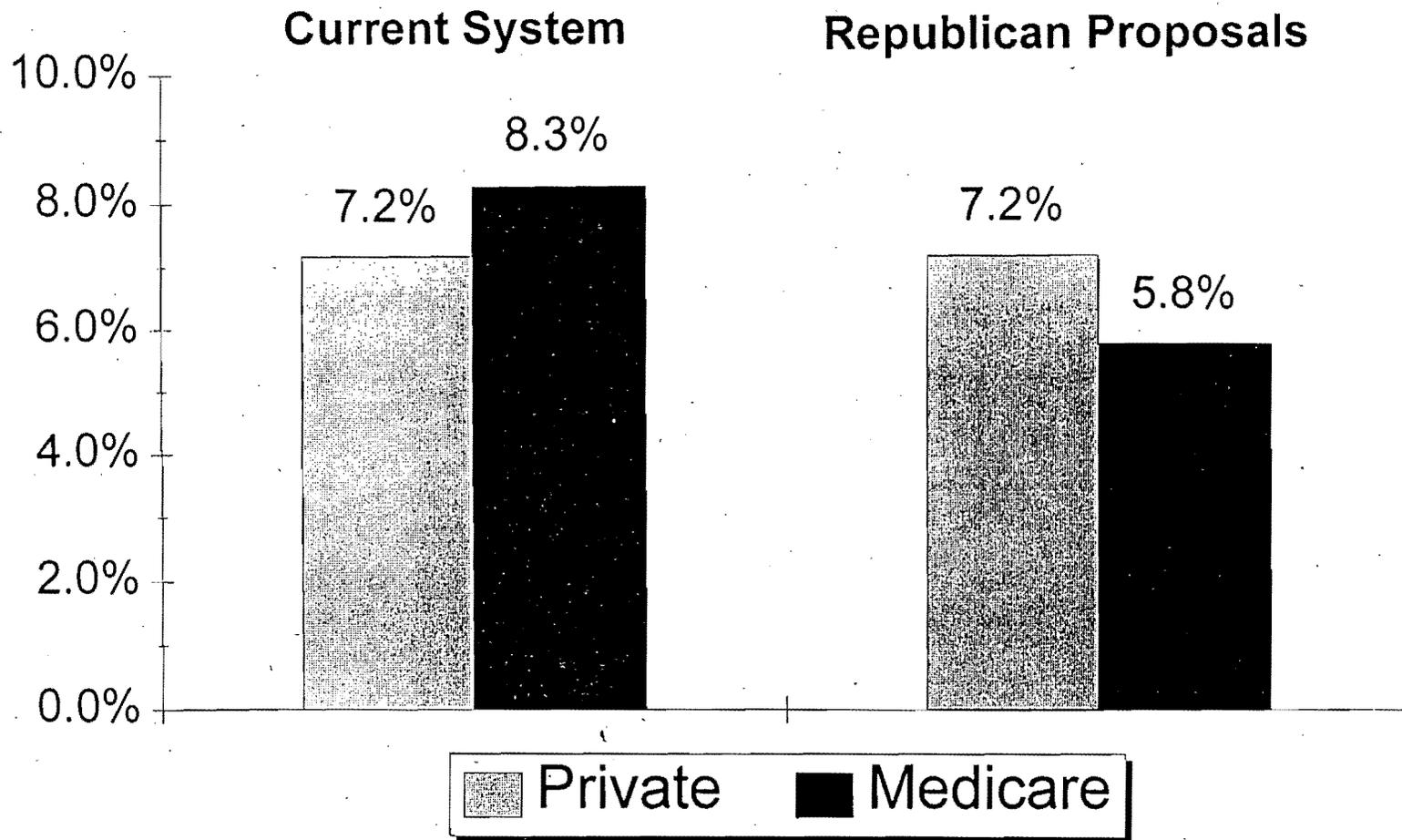
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Per Capita Growth Rates

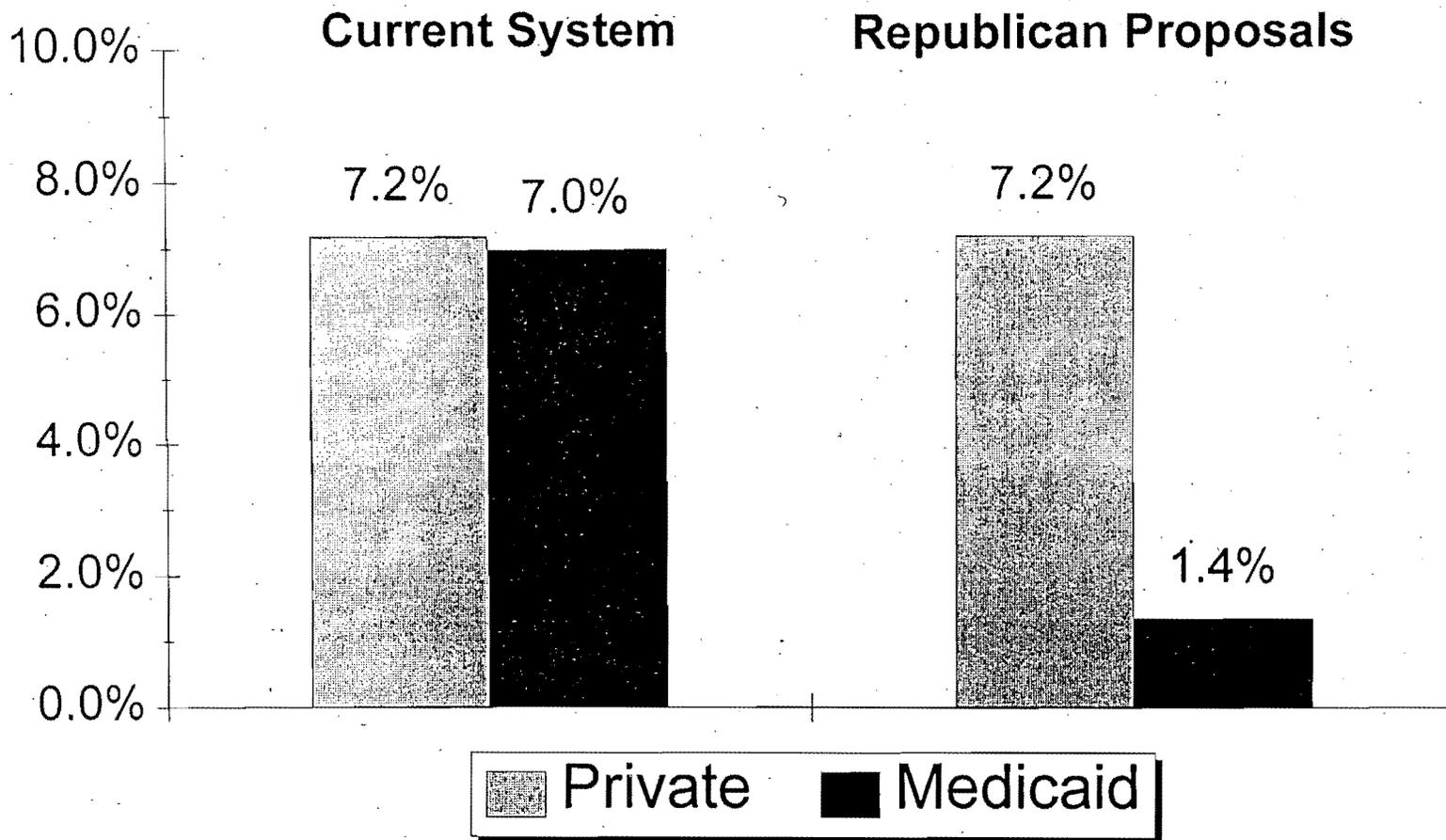
Private & Medicare, 1996 - 2002



CBO Baseline, Calendar Years

Per Capita Growth Rates

Private & Medicaid, 1996 - 2002



CBO Baseline, Calendar Years

Projected Medicare Beneficiaries by State

	1995	2002
US	37,631,000	41,299,000
Alabama	641,971	703,082
Alaska	33,784	49,773
Arizona	598,737	743,525
Arkansas	422,580	450,365
California	3,638,311	4,034,936
Colorado	423,478	514,095
Connecticut	503,906	533,943
Delaware	100,545	115,722
District of Columbia	78,730	76,330
Florida	2,615,604	2,951,880
Georgia	832,454	953,079
Hawaii	150,818	184,336
Idaho	149,769	171,120
Illinois	1,625,786	1,690,497
Indiana	827,174	890,461
Iowa	476,142	484,783
Kansas	383,997	397,890
Kentucky	585,590	636,855
Louisiana	582,491	634,122
Maine	202,149	221,565
Maryland	604,202	677,465
Massachusetts	937,292	996,344
Michigan	1,354,523	1,481,749
Minnesota	632,457	671,394
Mississippi	395,768	421,671
Missouri	834,228	876,863
Montana	129,141	141,557
Nebraska	249,529	256,357
Nevada	194,035	295,417
New Hampshire	156,237	178,655
New Jersey	1,174,802	1,244,404
New Mexico	212,160	257,452
New York	2,645,176	2,718,120
North Carolina	1,028,054	1,202,196
North Dakota	103,477	106,274
Ohio	1,673,946	1,800,336
Oklahoma	487,058	519,526
Oregon	470,268	524,031
Pennsylvania	2,083,051	2,187,966
Rhode Island	168,503	175,375
South Carolina	508,854	593,614
South Dakota	117,061	122,172
Tennessee	769,041	853,930
Texas	2,090,369	2,419,444
Utah	188,349	228,000
Vermont	82,989	91,752
Virginia	818,458	936,837
Washington	687,136	771,781
West Virginia	330,115	348,402
Wisconsin	763,230	804,207
Wyoming	60,570	72,355
Puerto Rico	476,704	527,920
All Other Areas	330,201	357,073

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

* Totals may not add due to rounding

**Effects of the Kasich Medicare Proposal By State
Losses by State Under the Proposal
(Fiscal years)**

	Aggregate Dollars (millions)		Per Capita Effect (\$ / 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	7,537	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

Variation in the costs per beneficiary across states reflects factors such as: (1) practice pattern differences, (2) cost differences; (3) differences in health status and the number of very old persons in a state; and (4) differences in the supply of health care providers.

NOTES: Assumes that increases in beneficiary out-of-pocket costs (e.g., premiums and coinsurance) are equal to 50% of the total cuts. 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. Thus, certain state estimates may be affected by part-year residency and state border crossing to obtain care (e.g., Florida & Minnesota). State border crossing makes the District of Columbia estimates unreliable. Technical reestimates of the aggregate savings may result in a 7-year total of \$282 billion.

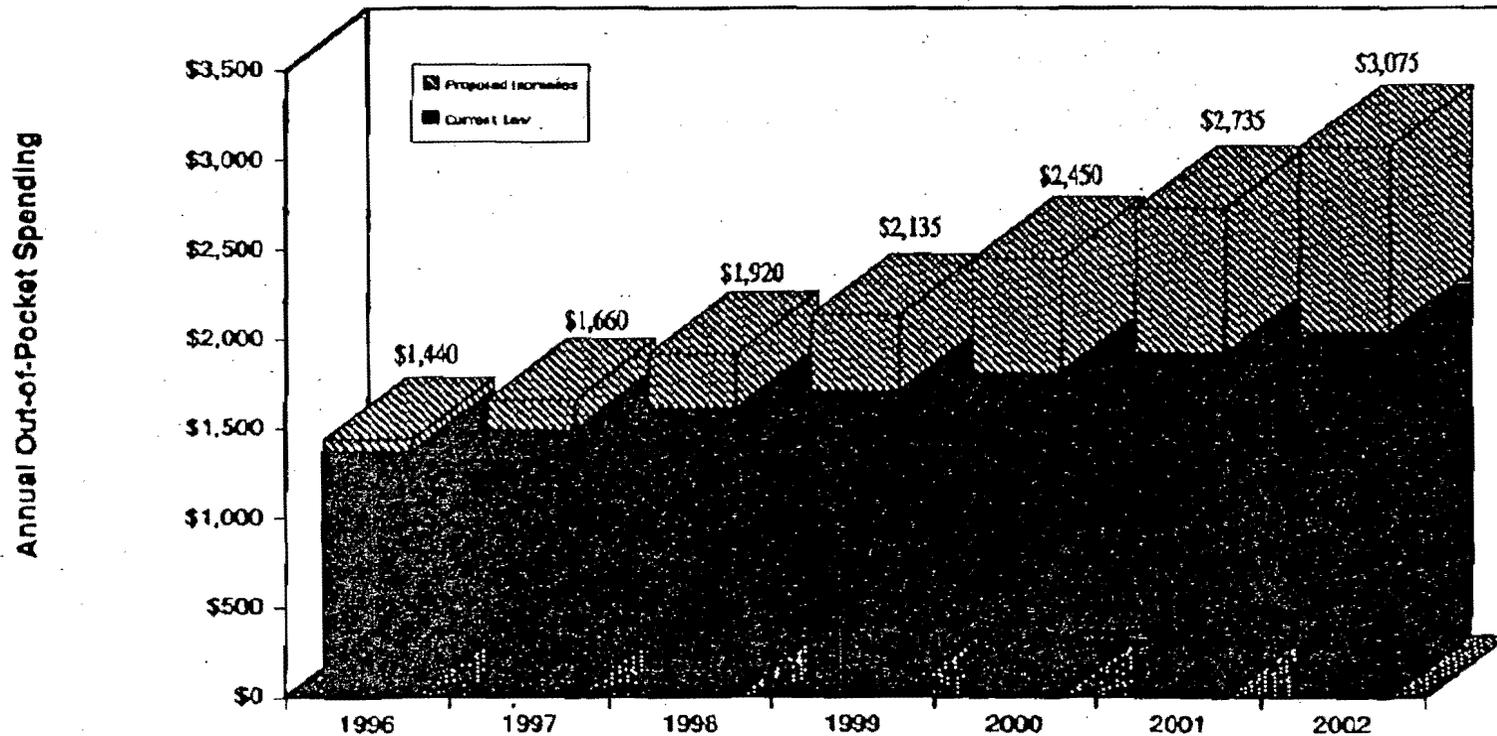
**Effects of the Domenici Medicare Proposal On States
Losses by State Under the Proposal
(Fiscal years)**

	Aggregate Dollars (millions)		Per Capita Effect (\$ / benef.)	
	2002	1996-2002	2002	1996-2002
US	61,700	255,600	747	3,174
Alabama	1,443	5,534	1,026	4,027
Alaska	36	158	364	1,794
Arizona	1,083	4,367	729	3,125
Arkansas	456	2,007	506	2,266
California	8,597	34,302	1,065	4,369
Colorado	834	3,230	811	3,314
Connecticut	906	3,756	848	3,568
Delaware	204	816	883	3,665
District of Columbia	1,040	3,508	NA	NA
Florida	6,769	26,448	1,147	4,626
Georgia	1,510	6,161	792	3,356
Hawaii	314	1,174	853	3,361
Idaho	108	497	317	1,512
Illinois	1,928	8,659	570	2,584
Indiana	1,141	4,830	640	2,765
Iowa	360	1,676	371	1,733
Kansas	606	2,508	762	3,175
Kentucky	703	3,070	552	2,467
Louisiana	1,156	4,792	911	3,865
Maine	168	772	379	1,788
Maryland	775	3,497	572	2,669
Massachusetts	2,233	8,927	1,121	4,547
Michigan	1,588	7,199	536	2,492
Minnesota	1,099	4,265	818	3,222
Mississippi	489	2,122	580	2,558
Missouri	1,113	4,822	635	2,783
Montana	114	513	402	1,861
Nebraska	245	1,071	479	2,100
Nevada	464	1,746	785	3,331
New Hampshire	212	874	593	2,540
New Jersey	1,686	7,349	678	2,997
New Mexico	181	804	352	1,656
New York	3,894	17,196	716	3,180
North Carolina	1,573	6,375	654	2,770
North Dakota	116	511	545	2,418
Ohio	1,878	8,461	522	2,397
Oklahoma	550	2,436	529	2,385
Oregon	734	2,915	700	2,862
Pennsylvania	3,289	14,314	752	3,311
Rhode Island	350	1,365	999	3,925
South Carolina	802	3,167	675	2,783
South Dakota	112	491	456	2,032
Tennessee	1,729	6,829	1,012	4,110
Texas	3,945	16,055	815	3,456
Utah	241	1,005	528	2,329
Vermont	76	339	417	1,901
Virginia	764	3,461	408	1,923
Washington	710	3,131	460	2,098
West Virginia	342	1,510	491	2,197
Wisconsin	665	3,041	413	1,916
Wyoming	35	172	245	1,258
Puerto Rico	332	1,358	315	1,322
All Other Areas	2	14	3	20

Variation in the costs per beneficiary across states reflects factors such as: (1) practice pattern differences, (2) cost differences; (3) differences in health status and the number of very old persons in a state; and (4) differences in the supply of health care providers.

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Projected Increases in Out-of-Pocket Spending by Medicare Beneficiaries Based on Kasich Proposal



Proposed Increases	\$65	\$170	\$305	\$425	\$640	\$810	\$1,030
Current Law	\$1,375	\$1,490	\$1,615	\$1,710	\$1,810	\$1,925	\$2,045

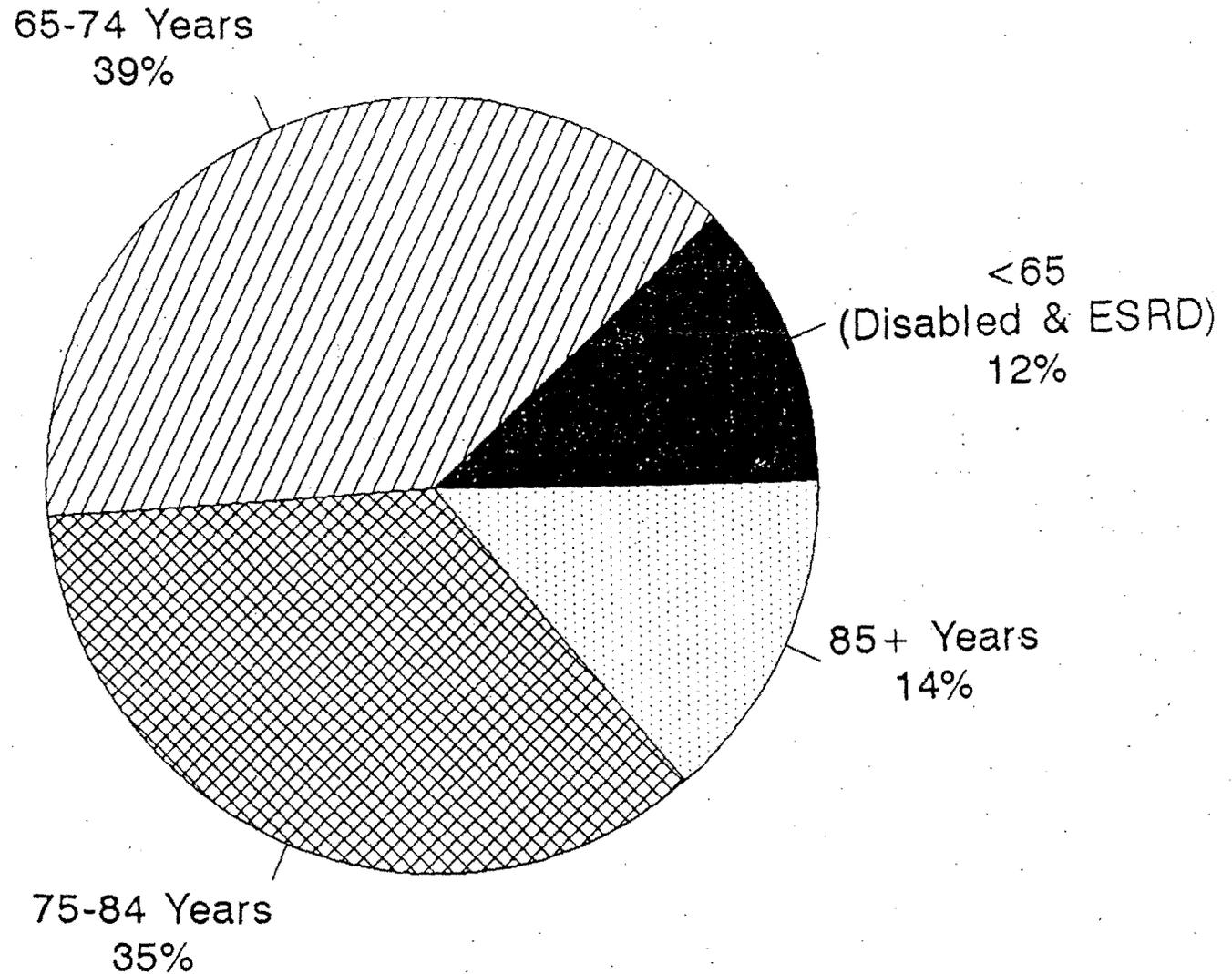
Fiscal Year

Increase assumes \$279 billion total savings over 7 years, with 50% of cuts (\$140 billion) affecting beneficiaries.

Out-of-pocket costs include: Medicare copayments, deductibles, & Part B premiums.

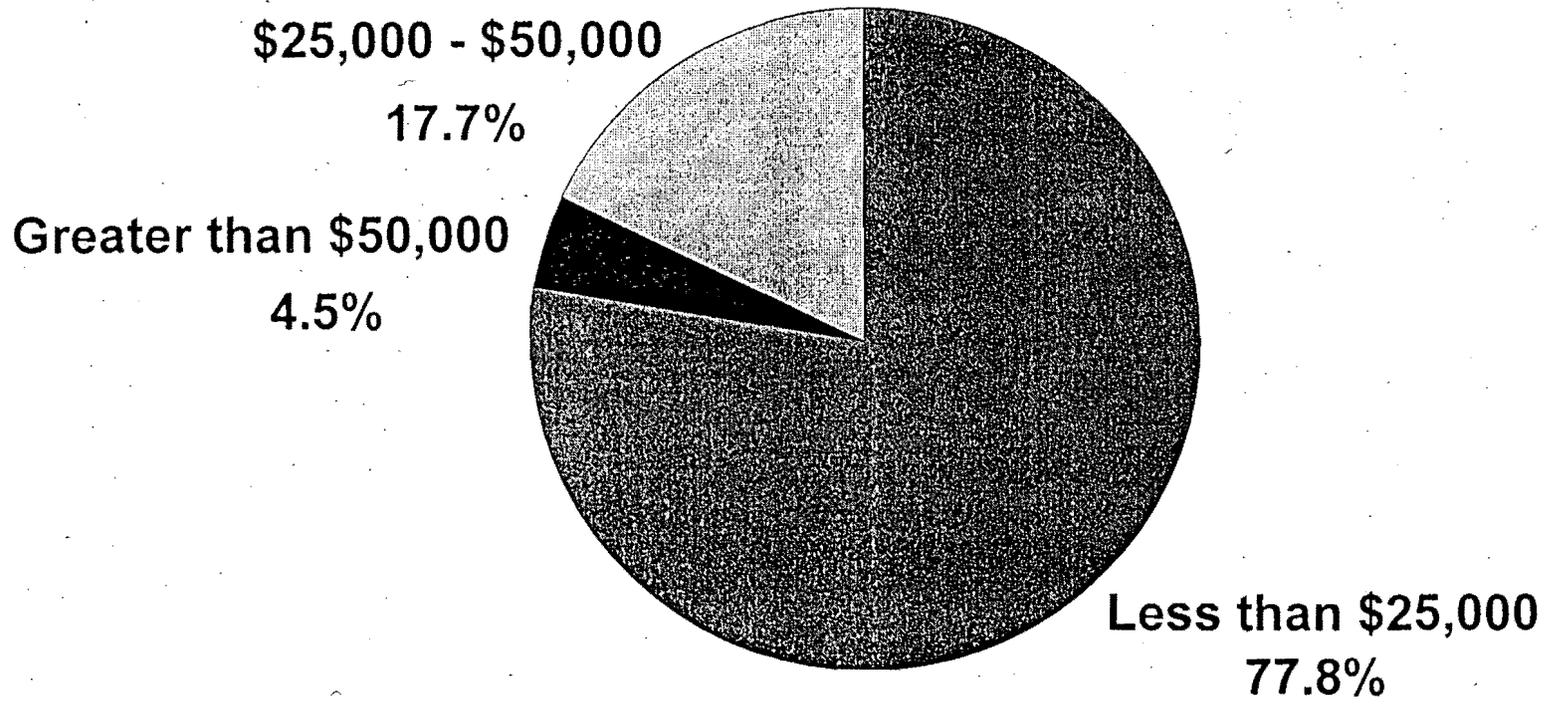
Source: Health Care Financing Administration

Distribution of Medicare Program Payments, 1992



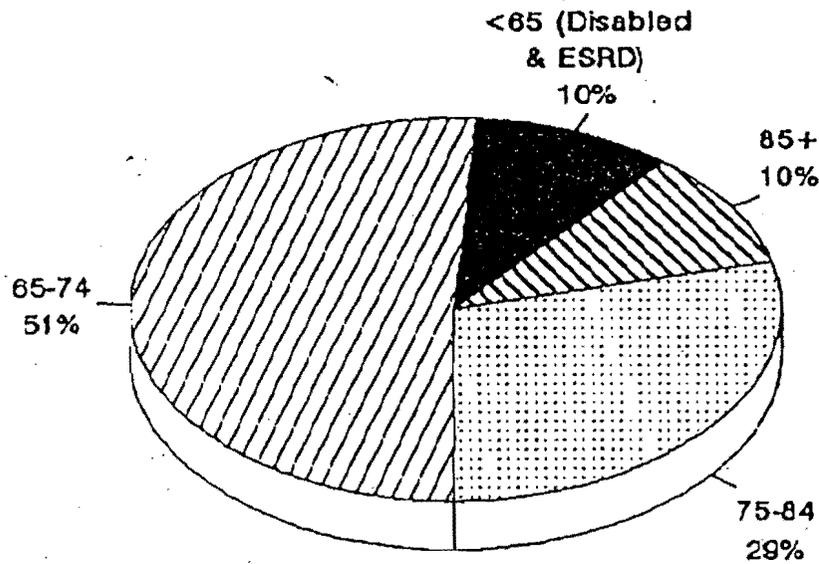
Total Payments = \$120.7 Billion

Medicare Beneficiaries' Income Distribution in 1992

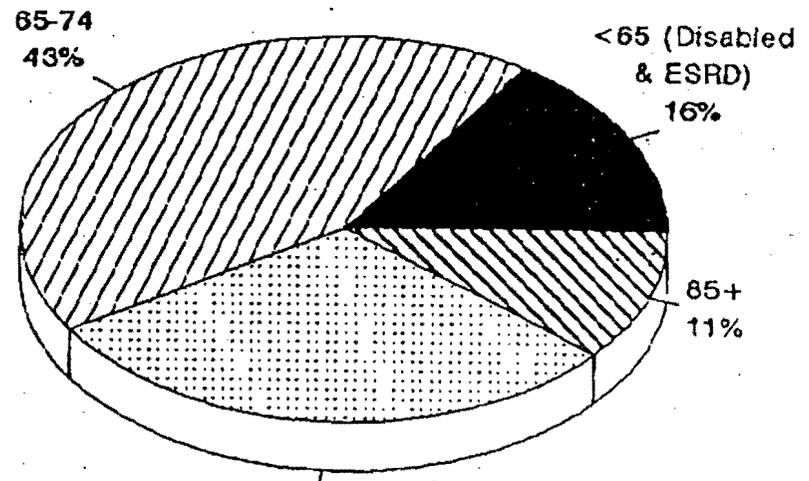


HCFA/OAct: Medicare Current Beneficiary Survey

The Composition of the Medicare Population, by Age 1992 and 2002



1992

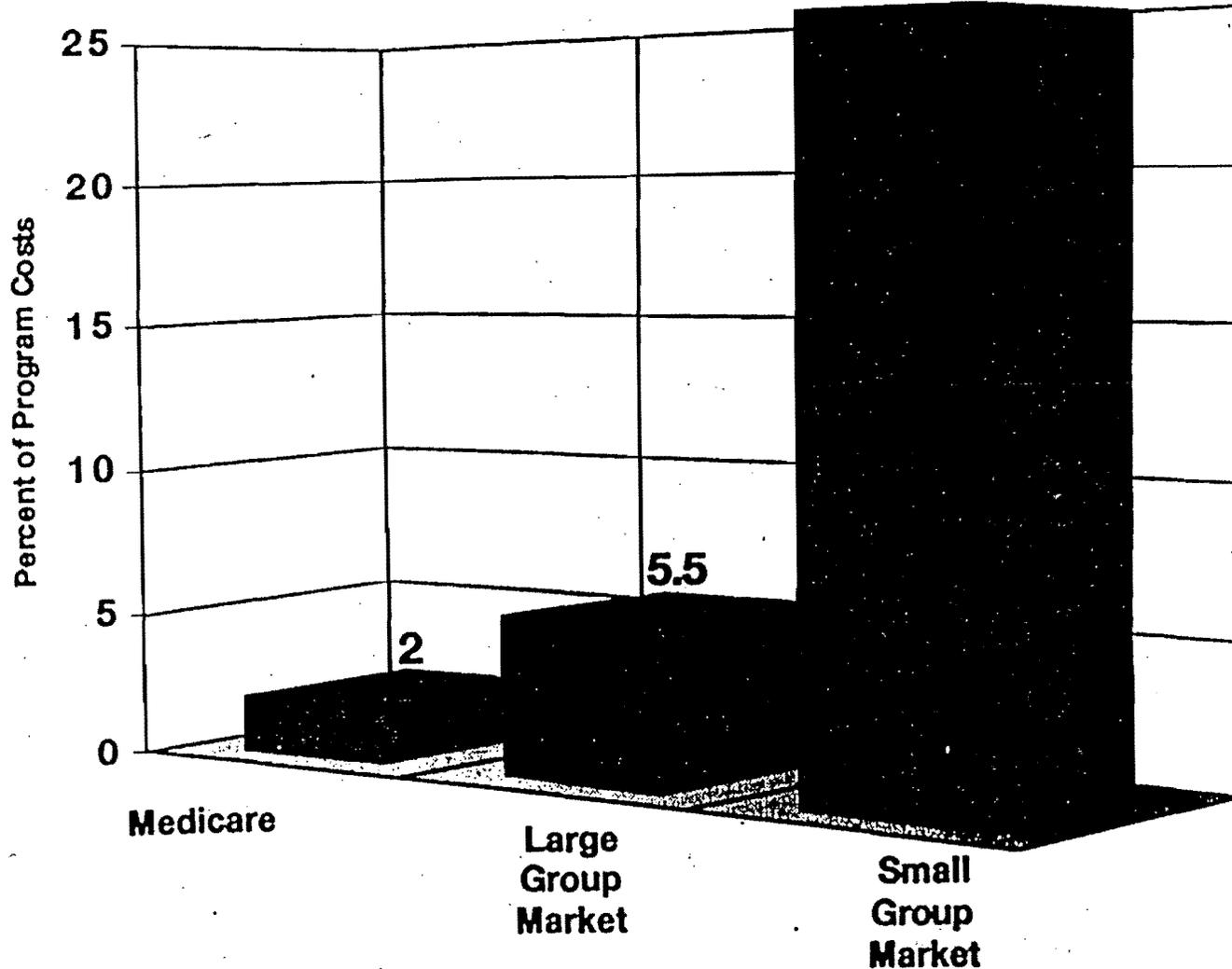


2002

Administrative Costs

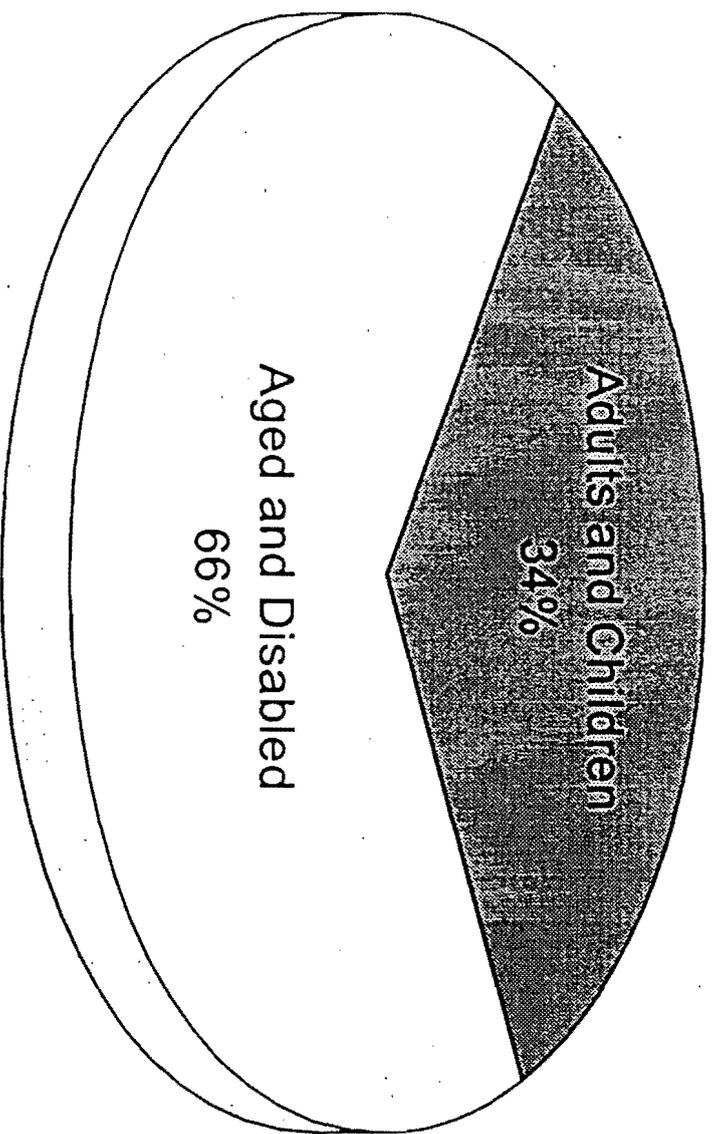
Medicare vs. Private Plans

25



Small group market = firms < 50 employees; Large group market = firms 10,000+ employees
Sources: HCFA/OACT and CRS, "Costs and Effects of Extending Health Insurance Coverage," 1988
Note: Administrative activities in the two sectors differ; e.g., private costs include marketing and profit.

Medicaid Expenditures by Recipient, FY95



*Excluding DSH payments to Hospitals

Comparison of Growth Rates: Calendar Years 1996 - 2002

	BASELINE		REPUBLICAN PROPOSALS	
	Admin.	CBO	Admin.	CBO
Private				
Total	8.1%	7.5%		
Per Capita	7.6%	7.2%		
Beneficiaries	0.4%	0.3%		
Medicare				
Total	8.9%	9.7%	7.1%	7.1%
Per Capita	7.6%	8.3%	5.8%	5.8%
Beneficiaries	1.3%	1.3%	1.3%	1.3%
Medicaid				
Total	9.3%	10.2%	4.5%	4.5%
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Beneficiaries	3.8%	3.1%	3.8%	3.1%

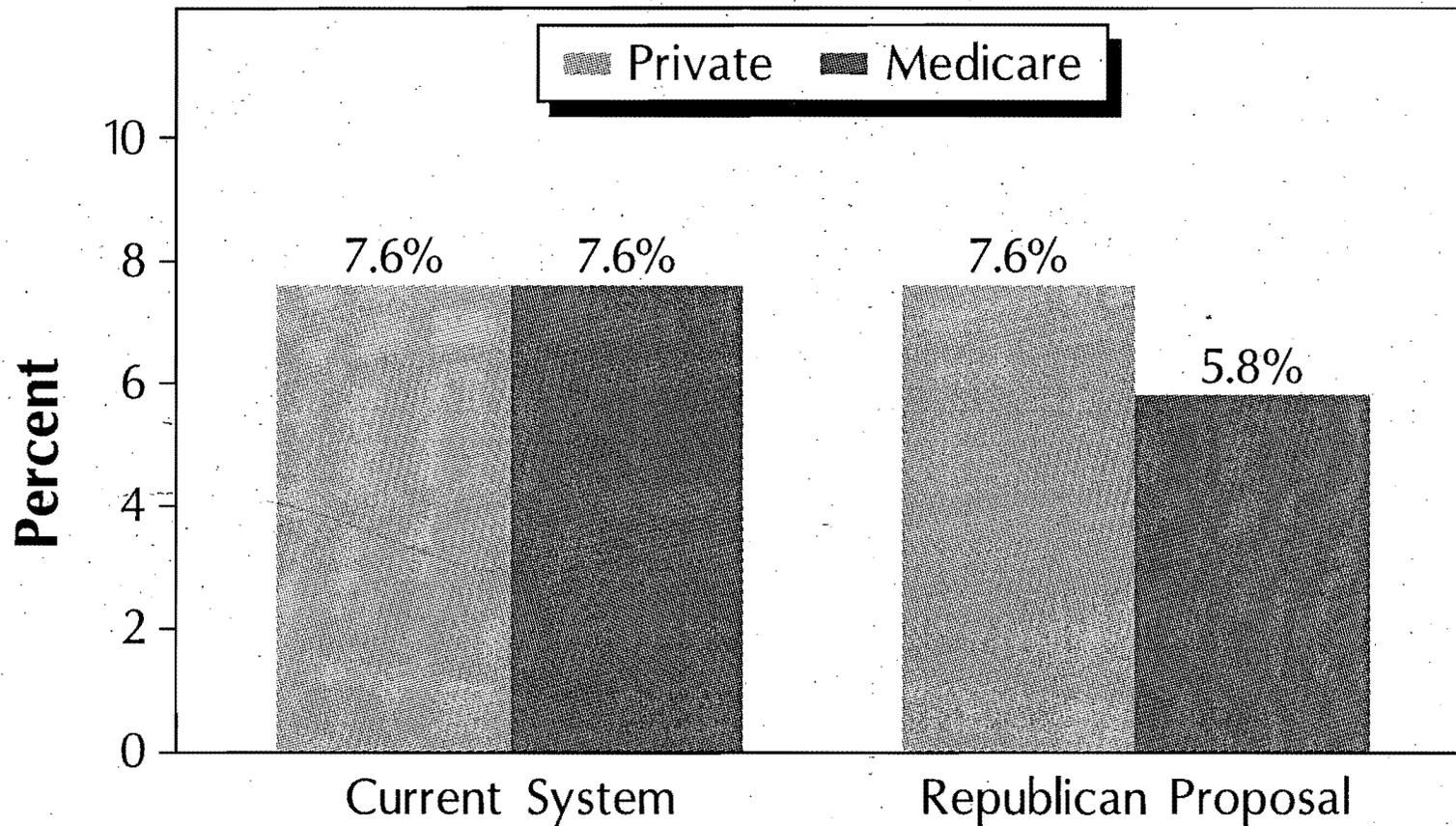
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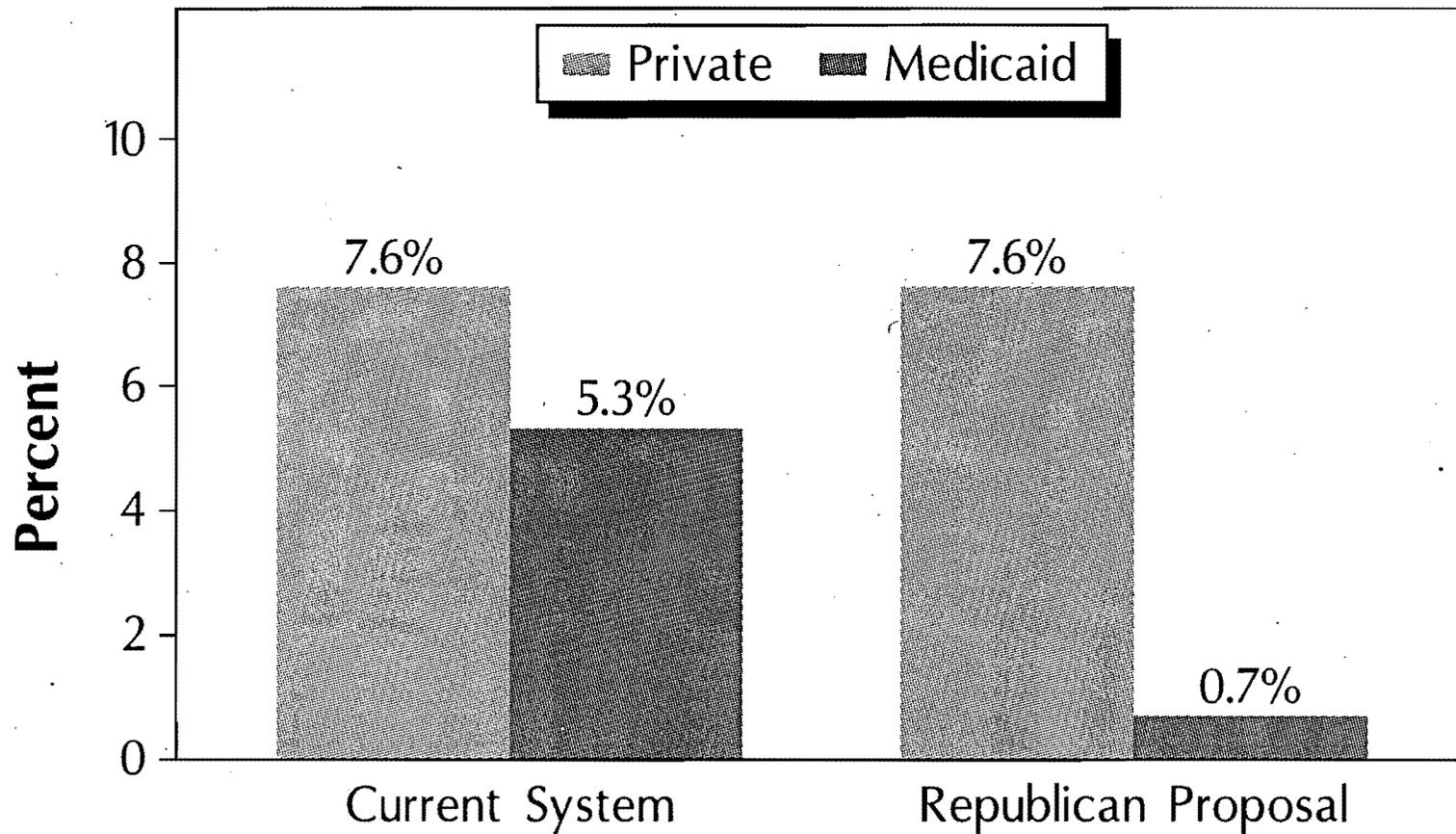
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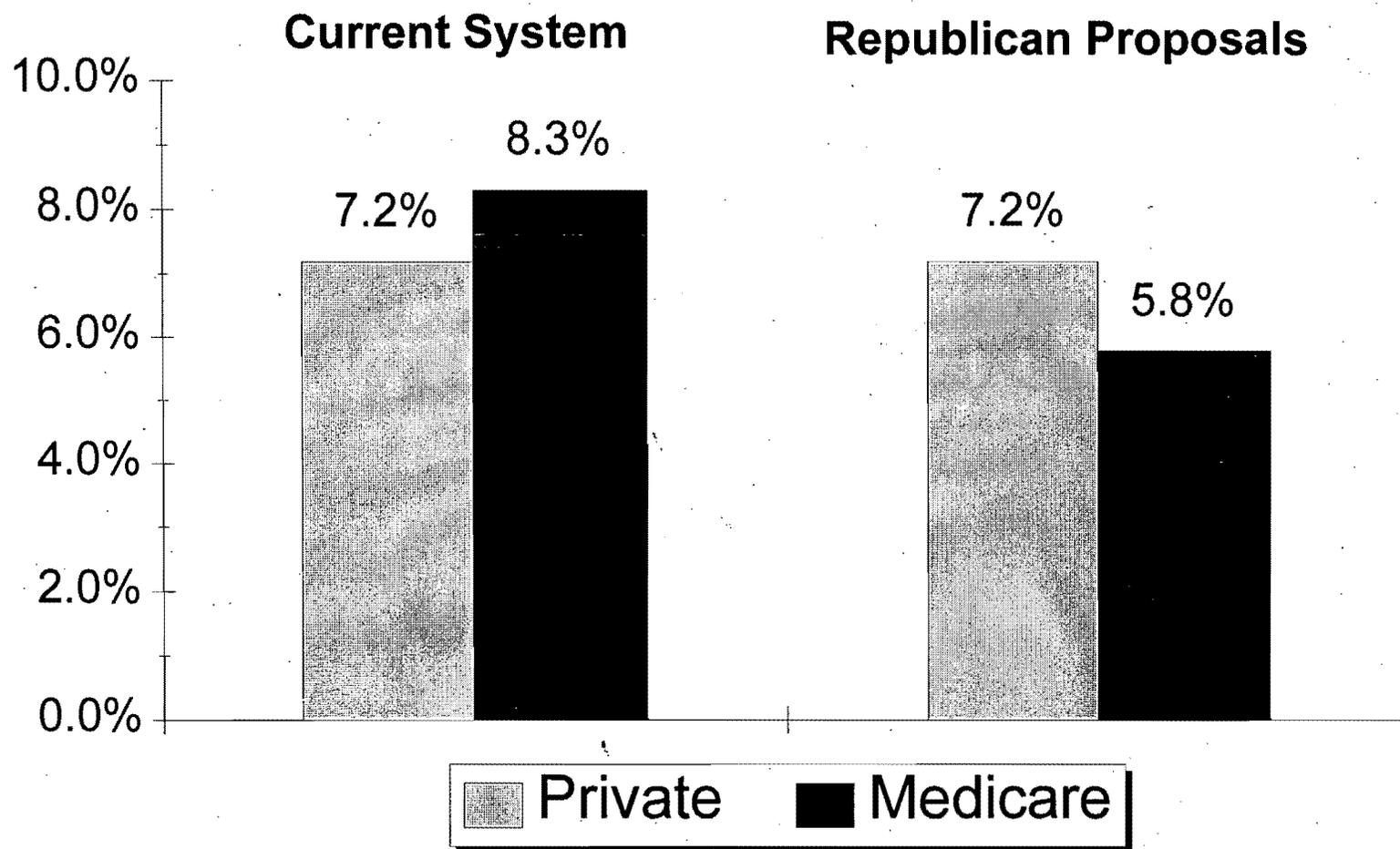
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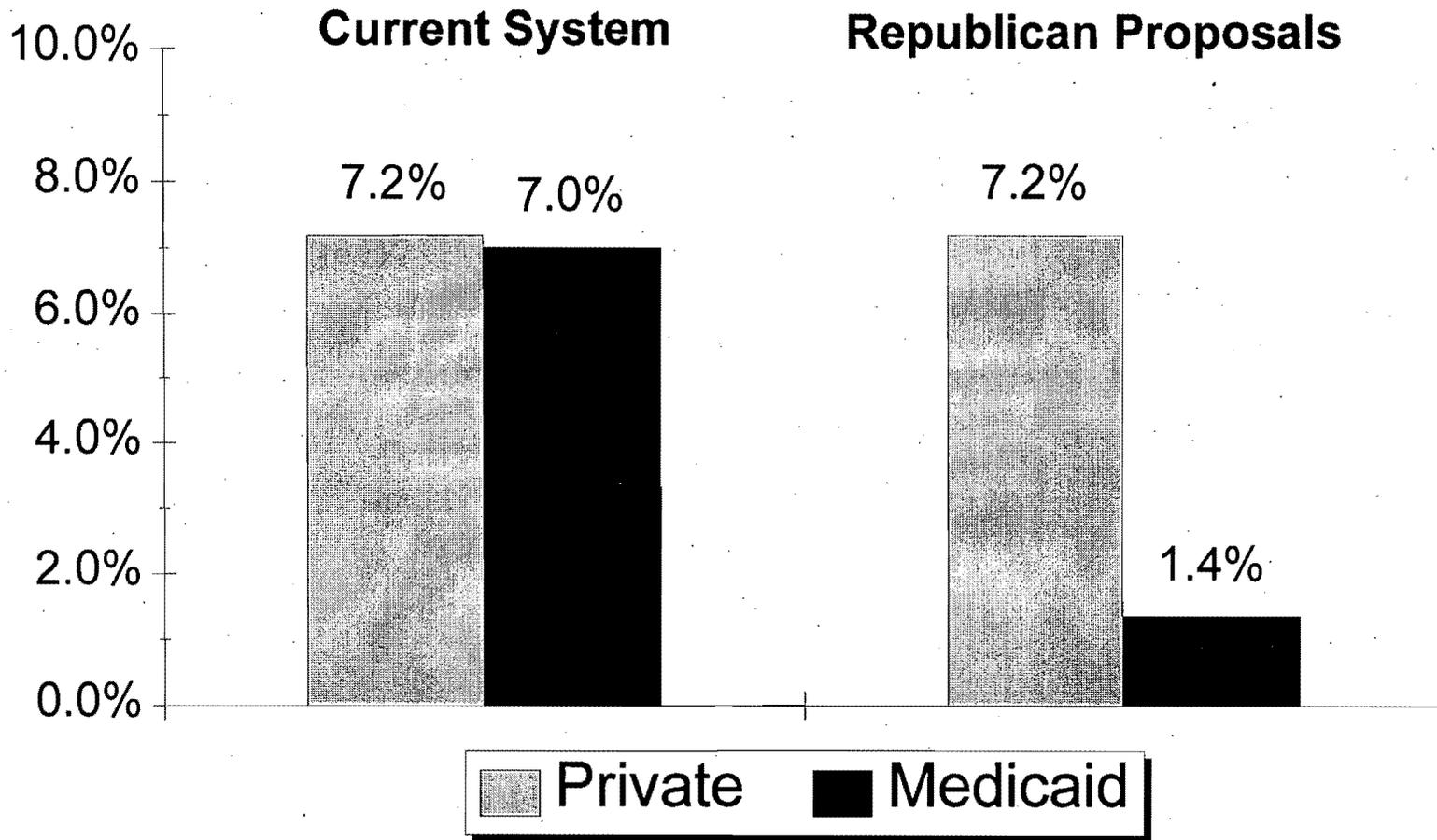
Per Capita Growth Rates Private & Medicare, 1996 - 2002



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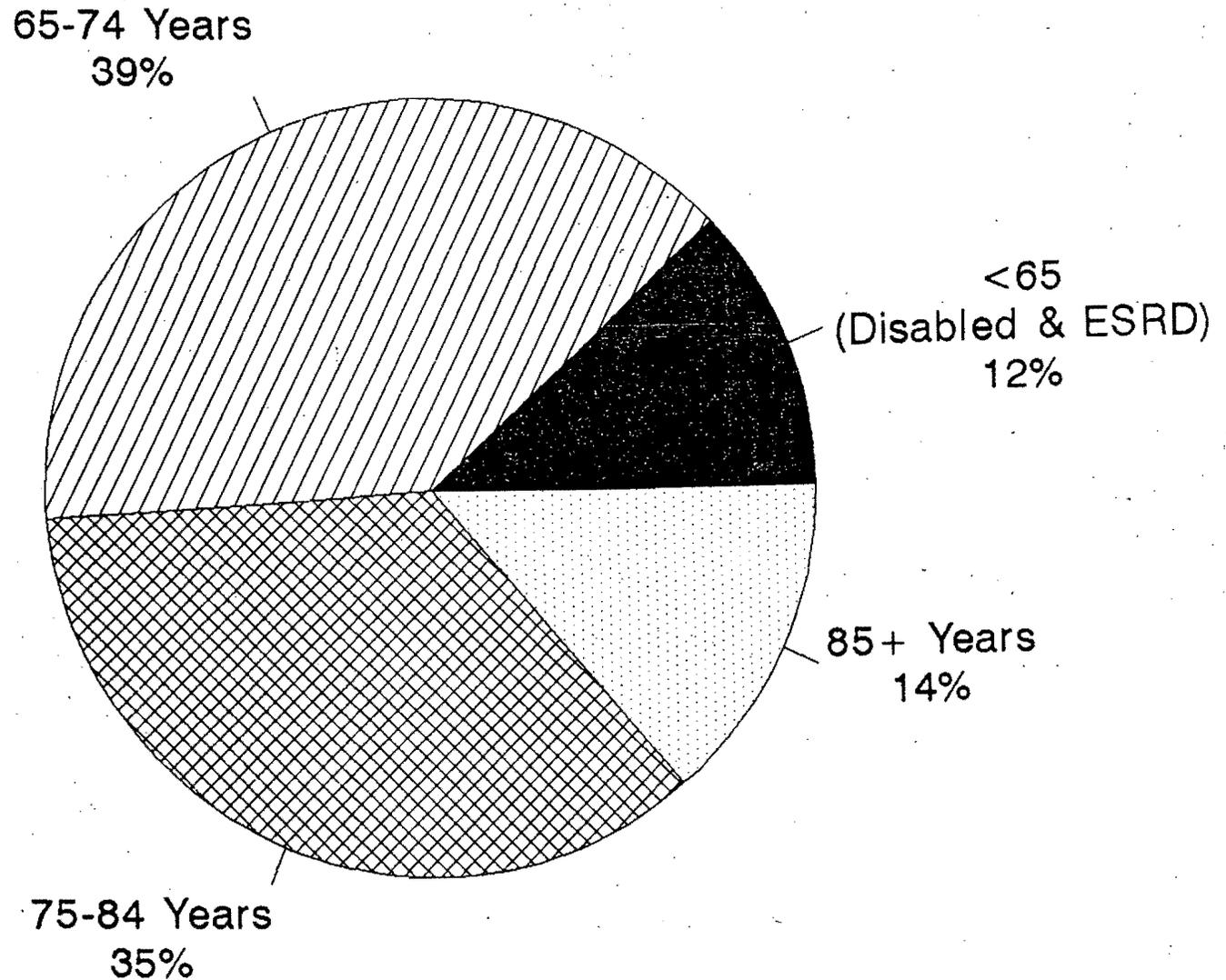
Per Capita Growth Rates

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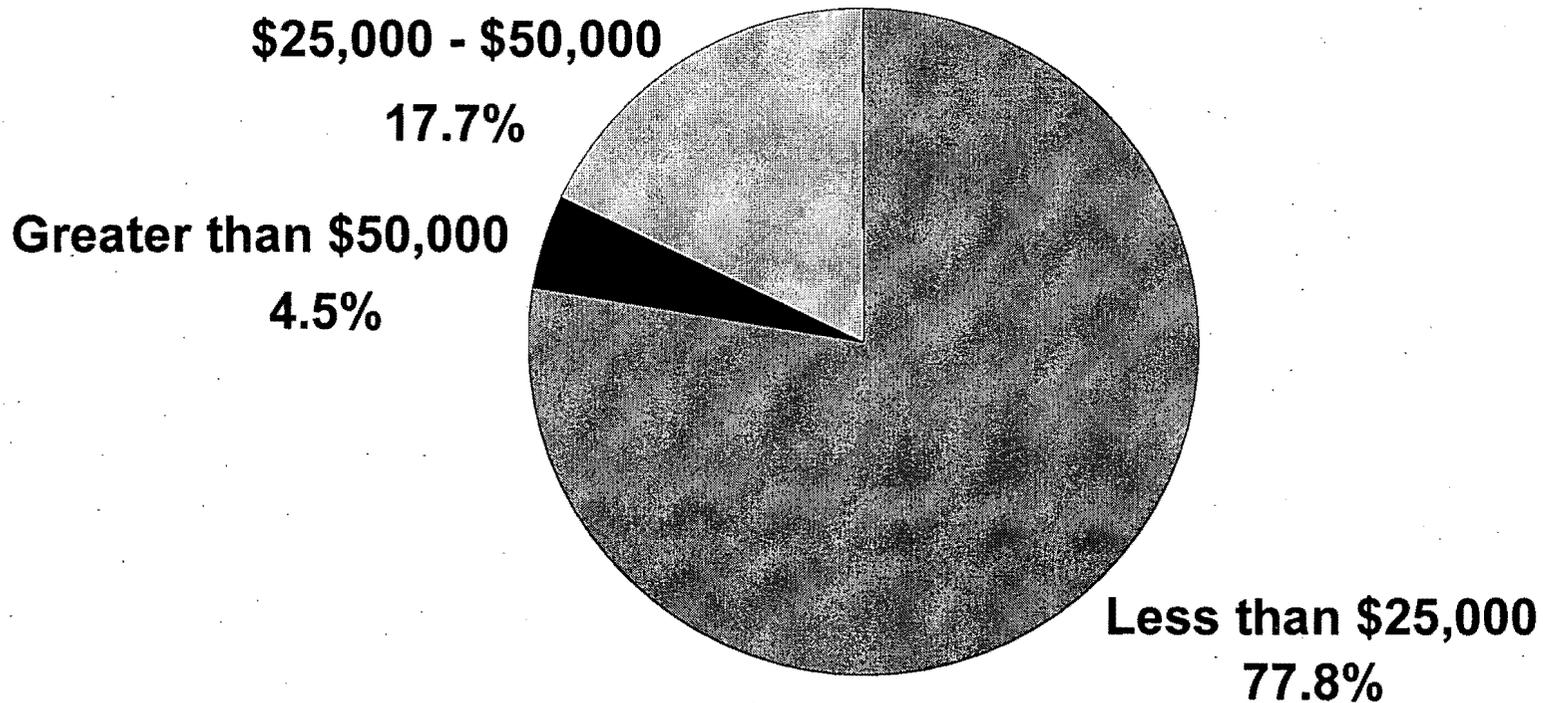
CBO Baseline, Calendar Years

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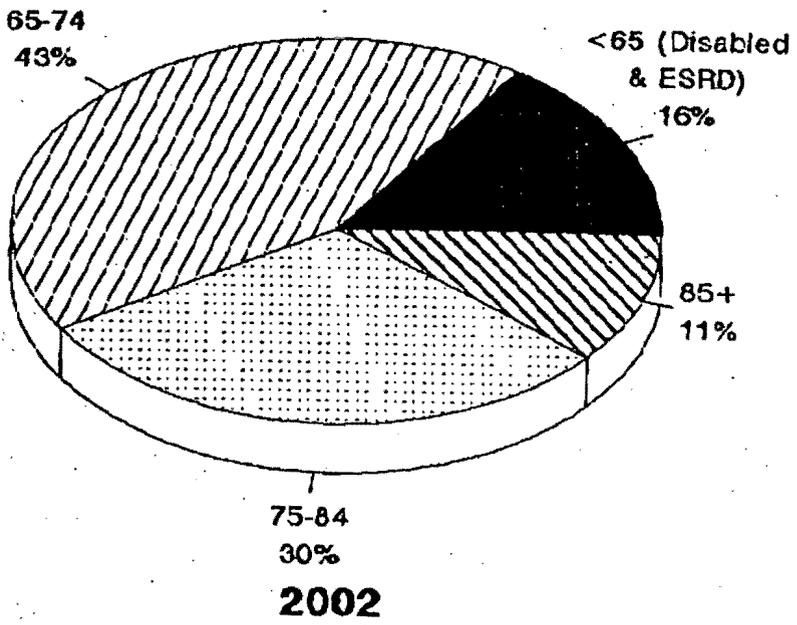
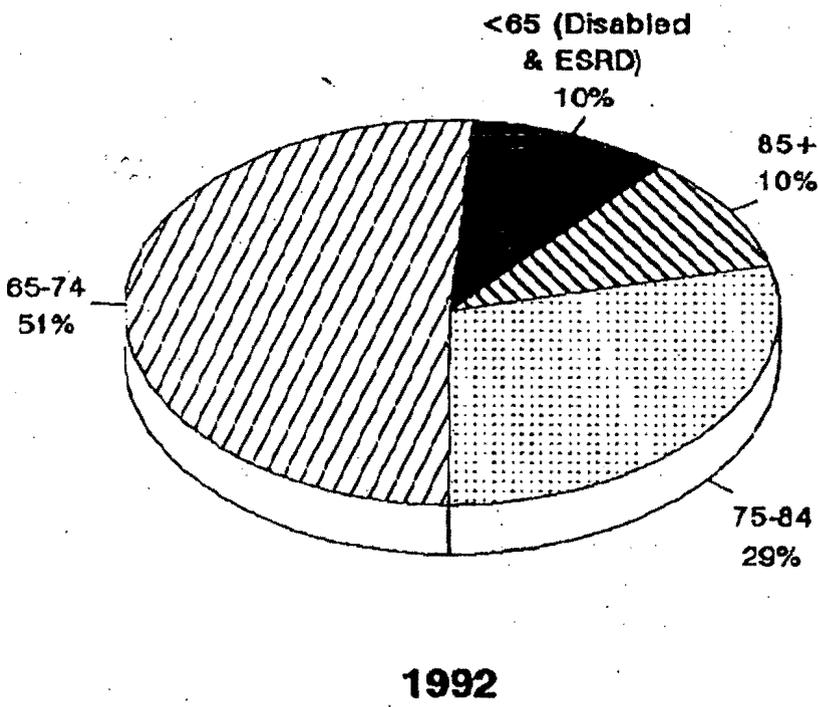
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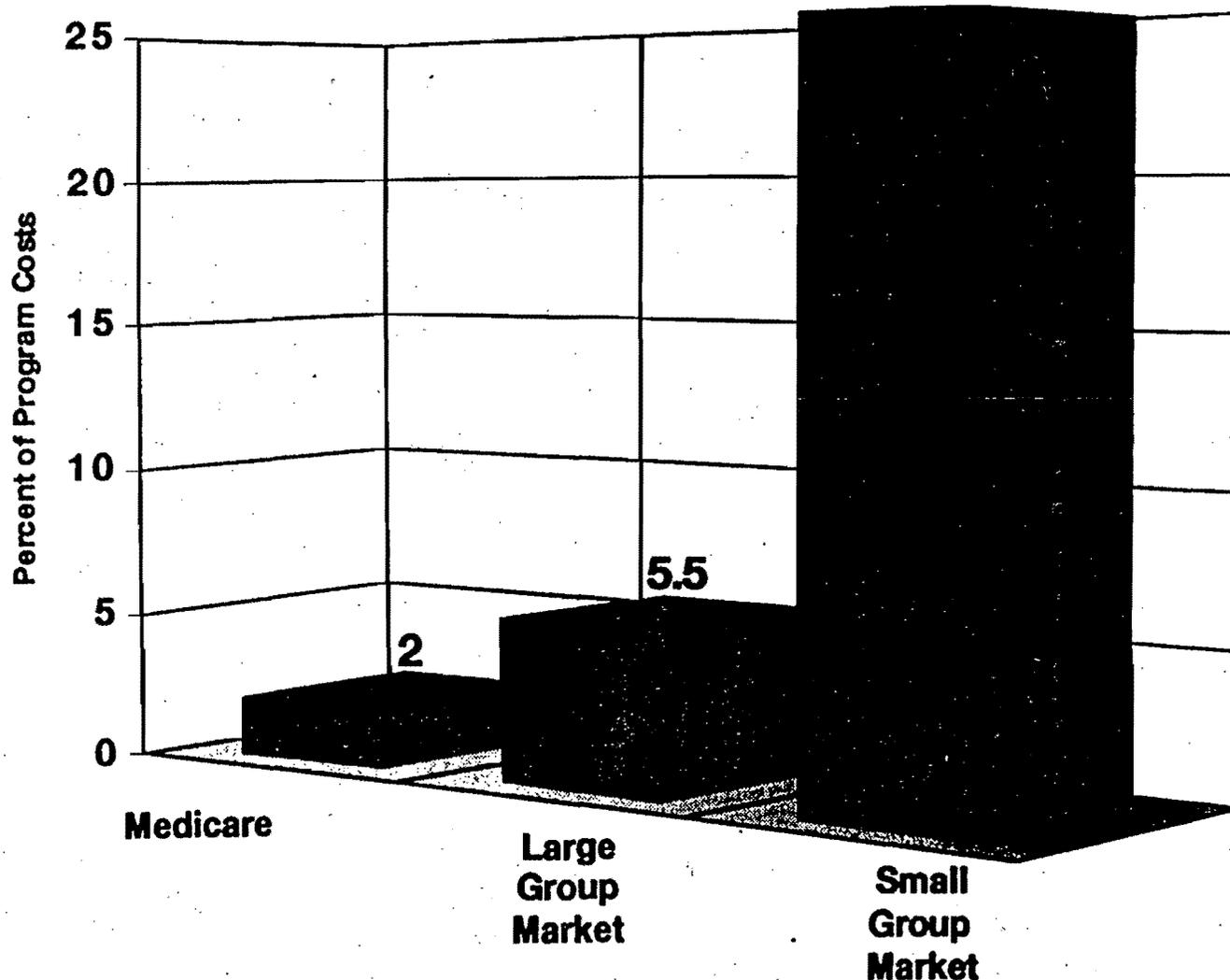
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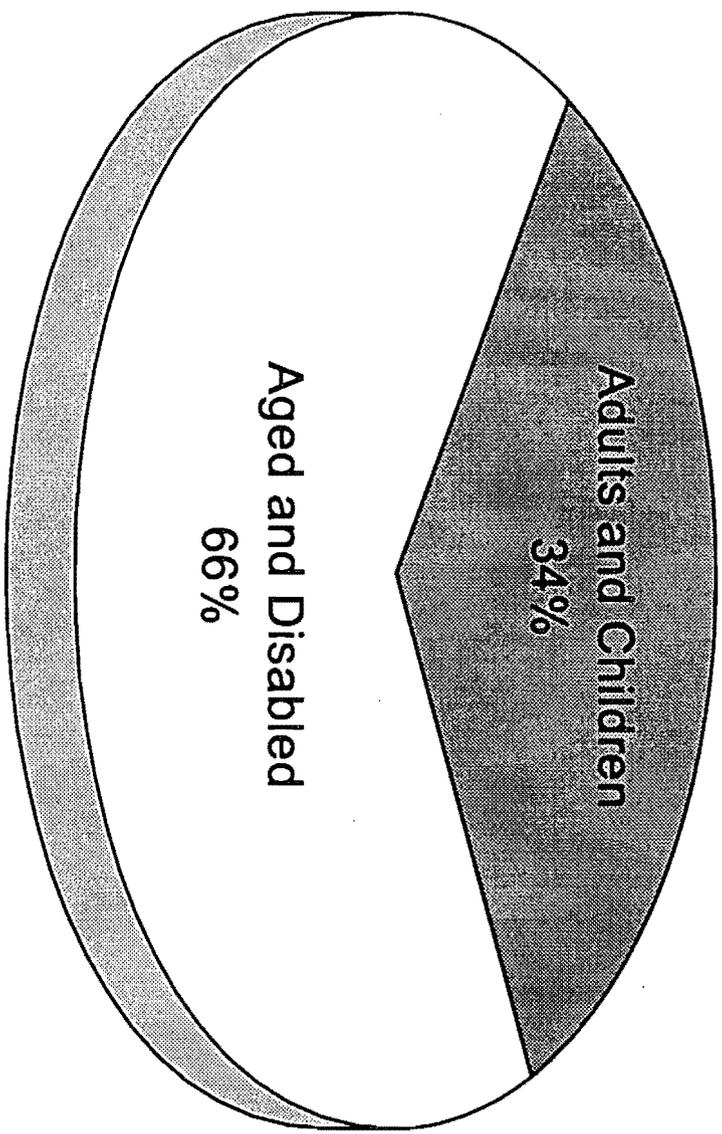
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