

CBO TESTIMONY

Statement of
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on
Estimates of the President's Proposals
for Medicare, Medicaid, and Welfare

before the
Committee on Finance
United States Senate

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NOTICE

This statement is not available for public release until it is delivered at 10:30 a.m. (EST), Tuesday, March 4, 1997.



CONGRESSIONAL BUDGET OFFICE
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WASHINGTON, D.C. 20515

Mr. Chairman and Members of the Committee, I am pleased to be with you this morning to present the Congressional Budget Office's (CBO's) analysis of the President's budget. My statement will give an overview of our findings and provide more details about CBO's estimates of the President's proposals for Medicare, Medicaid, and other programs in the Committee's jurisdiction.

OVERVIEW OF THE BUDGET

As he did last year, the President has submitted a budget that is intended to eliminate the deficit by 2002. To help ensure that this goal is reached, the President has proposed two sets of policies: one that would produce a \$17 billion surplus under the Administration's economic and technical estimating assumptions, and an alternative set that would reach budgetary balance in 2002 under CBO's more cautious assumptions.

Using CBO's economic and technical estimating assumptions, the President's basic budgetary proposals would fall short of balance in 2002 by \$69 billion. The alternative Administration policies are designed to fill the

\$69 billion deficit hole estimated by CBO. Under those alternative policies, some proposed tax cuts would sunset after 2000, and most spending programs would be cut across-the-board in 2001 and 2002 from the levels proposed by the President.

CBO Estimates of the President's Basic Policies

If current budgetary policies remain unchanged, CBO projects that the federal deficit will rise from the \$107 billion posted last year to \$188 billion by 2002. Balancing the budget in 2002, however, would lower interest rates and produce other changes in the economy that would yield a fiscal dividend of an estimated \$34 billion in 2002. Under CBO's projections that include that fiscal dividend, \$153 billion in policy savings in 2002 would be needed to produce a balanced budget that year. Those projections provide the starting point for CBO's analysis of the President's budget, since the budget is intended to eliminate the deficit over the next five years.

CBO estimates that the President's basic policies would save \$84 billion in 2002 and produce a deficit of \$69 billion (see Table 1). Over the 1998-2002

TABLE 1. CBO ESTIMATE OF THE EFFECT ON THE DEFICIT OF THE PRESIDENT'S BASIC BUDGETARY POLICIES
(By fiscal year, in billions of dollars)

	1997	1998	1999	2000	2001	2002	Total 1998-2002
CBO Revised Deficit Projections, Including Fiscal Dividend^a	115	121	145	159	142	153	n.a.
Effect on the Deficit of the President's Budgetary Policies							
Revenues^b							
Reductions	1	21	21	22	27	28	120
Increases	-1	-11	-16	-17	-18	-19	-81
Subtotal	c	10	5	5	10	9	39
Outlays							
Discretionary	c	9	-3	-13	-29	-42	-79
Mandatory							
Medicare	0	-3	-10	-18	-22	-29	-82
Medicaid	c	2	2	-1	-4	-6	-7
Health Insurance	0	3	3	3	4	1	14
Supplemental Security Income	c	2	2	2	2	2	9
Food Stamps	c	1	1	1	1	1	5
Education and training	0	2	2	3	2	c	9
Spectrum auctions	0	0	-3	-4	-6	-12	-24
Other	-5	-2	-2	-2	-2	-5	-13
Subtotal	c	5	-6	-17	-26	-46	-90
Total Policies	1	23	-3	-24	-46	-79	-129
Debt service	c	1	1	c	-2	-5	-4
Total Effect on the Deficit	1	24	-2	-24	-47	-84	-133
Deficit Under the President's Budgetary Policies as Estimated by CBO	116	145	142	135	95	69	n.a.

SOURCE: Congressional Budget Office.

NOTES: Estimates contained in this table exclude alternative policies to eliminate the deficit gap under CBO assumptions.
n.a. = not applicable.

- a. Deficit under CBO's revised projections that assumes both balanced budget economic assumptions and discretionary spending that increases with inflation, subject to the statutory cap for 1998.
- b. The revenue estimates differ somewhat from those published by the Joint Committee on Taxation (JCT). CBO has used Administration estimates for two proposals that JCT was unable to estimate because they are not yet specified—a new aviation fee system and a District of Columbia tax-incentive program. CBO's estimates also include additional fee proposals and exclude a proposal that would only affect outlays. In addition, they assume that tax cuts specified in statutory language to sunset in 2000 are extended permanently.
- c. Less than \$500 million.

period, the President's policies would reduce the deficit by a total of \$133 billion. Reductions in projected spending for Medicare and Medicaid account for \$89 billion, or two-thirds of the proposed savings.

CBO's estimated deficit of \$69 billion in 2002 contrasts with the surplus of \$17 billion that the Administration estimates (see Table 2). About 70 percent, or \$60 billion, of that \$86 billion discrepancy stems from differences in deficit estimates under current policies, largely because of different economic assumptions. Reestimates of the effects of the President's proposed policy changes account for the remaining \$27 billion difference. Most of that reestimate is the result of different estimates of the President's Medicare proposals and the proposed auction of additional portions of the electromagnetic spectrum.

CBO Estimates of the President's Alternative Policies

The President's budget briefly mentions an alternative set of policies that are designed to eliminate the deficit in 2002 under CBO's current economic and

TABLE 2. CBO REESTIMATE OF THE PRESIDENT'S BASIC BUDGETARY POLICIES
(By fiscal year, in billions of dollars)

	1997	1998	1999	2000	2001	2002
Deficit Under the President's Basic Budgetary Policies as Estimated by the Administration	126	121	117	87	36	-17
Baseline Reestimates						
Economic Differences						
Revenues	8	17	25	35	40	46
Outlays	8	3	10	12	12	15
Subtotal	8	20	35	47	52	61
Technical Differences						
Revenues	-11	-11	-15	-13	-14	-15
Outlays	-10	5	-5	9	8	14
Subtotal	-21	-6	-20	-4	-14	-2
Total, Baseline Differences	-13	15	15	43	38	60
Policy Reestimates						
Revenues	1	3	4	1	4	5
Outlays						
Discretionary	1	1	5	-1	7	1
Mandatory						
Medicare	0	2	1	4	6	6
Medicaid	a	a	1	a	a	a
Spectrum auctions	-2	4	-1	a	1	11
Other	2	1	1	1	3	5
Subtotal	a	5	2	5	10	21
Total, Policy Differences	3	10	10	5	21	27
Total Differences	-10	25	25	48	59	86
Deficit Under the President's Basic Budgetary Policies as Estimated by CBO	116	145	142	135	95	69

SOURCE: Congressional Budget Office.

NOTE: Estimates contained in this table exclude alternative policies to eliminate the deficit gap under CBO assumptions.

a. Less than \$500 million.

technical estimating assumptions. That alternative set of policies includes all of the President's basic policies plus additional ones that would be in effect only if CBO's assumptions are used in the budget process.

If CBO's assumptions are used for budget planning, the President would allow most of his tax cuts to sunset at the end of calendar year 2000. The Joint Committee on Taxation estimates that ending those tax cuts would increase revenues by \$24 billion in 2002 (see Table 3).

On the outlay side of the budget, the President's alternative policies include a 2.25 percent across-the-board cut that would reduce Medicare spending in 2002 by \$6 billion, Medicaid by \$3 billion, and other nonexempt mandatory spending by \$1 billion. Except for Social Security, cost-of-living adjustments in 2002 would be limited to 0.46 percent instead of the 3 percent projected under current law. Television broadcasters would be assessed a fee to make up any difference between the actual proceeds of the proposed auction of the analog broadcast spectrum and the amount assumed in the budget. The remaining gap would be filled by an across-the-board reduction in discretionary spending in 2001 and 2002. CBO estimates that the required cut

TABLE 3. ESTIMATE OF THE PRESIDENT'S ALTERNATIVE POLICIES TO ELIMINATE THE DEFICIT HOLE UNDER CBO ASSUMPTIONS (By fiscal year, in billions of dollars)

	2001	2002
Revenues	-3	-24
Outlays		
Discretionary	-14	-20
Mandatory		
Medicare	0	-6
Medicaid	0	-3
Fee on broadcasters	0	-9
Cost-of living adjustments ^a	0	-3
Other	<u>0</u>	<u>-1</u>
Subtotal	0	-23
Total Policies	-17	-67
Debt Service	b	-2
Total Effect on the Deficit	-17	-69

SOURCE: Congressional Budget Office.

- a. Exempts the cost-of-living adjustment of Social Security beneficiaries.
- b. Less than \$500 million.

would be about 4 percent rather than the 2.25 percent estimated by the Administration.

MEDICARE

Under current policies, CBO projects that gross mandatory spending for Medicare—primarily for medical benefits—will increase from \$209 billion in 1997 to \$314 billion in 2002, an average annual increase of 8.5 percent (see Table 4). Net mandatory spending, which takes into account premiums paid by Medicare beneficiaries, will increase at an average annual rate of 8.8 percent. CBO's baseline projections of Medicare spending are virtually the same as those of the Administration.

Although the growth in Medicare spending has slowed since the late 1980s and early 1990s, it will continue to outpace the growth in the resources that finance the program. Without changes in law, outlays for Hospital Insurance (HI) benefits will increase more rapidly than payroll taxes, and the

TABLE 4. CBO ESTIMATE OF THE PRESIDENT'S MEDICARE PROPOSALS
(By fiscal year, in billions of dollars)

	1997	1998	1999	2000	2001	2002	Total, 1998-2002	Average Annual Rate of Growth, 1997-2002 (Percent)
CBO Baseline								
Benefit Payments ^a	208.8	227.0	248.2	273.0	285.6	313.7	1,375.4	8.5
Premiums	<u>-20.2</u>	<u>-21.4</u>	<u>-22.4</u>	<u>-23.4</u>	<u>-24.5</u>	<u>-25.6</u>	<u>-1,117.4</u>	4.8
Total ^b	188.6	205.5	225.7	249.5	261.1	288.1	1,230.0	8.8
Proposed Changes								
Benefit Payments								
Payments to fee-for-service providers	0	-3.0	-7.6	-11.4	-14.2	-16.7	-52.9	n.a.
Payments to health maintenance organizations	0	-0.9	-2.9	-6.7	-8.2	-11.1	-29.9	n.a.
Additional benefits	0	1.2	3.0	3.8	4.5	5.0	17.5	n.a.
Other changes ^c	<u>0</u>	<u>-0.2</u>	<u>-1.9</u>	<u>-2.0</u>	<u>-2.1</u>	<u>-2.3</u>	<u>-8.5</u>	n.a.
Subtotal	0	-2.9	-9.4	-16.3	-20.1	-25.1	-73.8	n.a.
Premiums	<u>0</u>	<u>0.2</u>	<u>-0.6</u>	<u>-1.4</u>	<u>-2.2</u>	<u>-3.8</u>	<u>-7.8</u>	n.a.
Total	0	-2.8	-10.0	-17.7	-22.3	-28.8	-81.6	n.a.
CBO Estimate of the President's Proposal								
Benefit Payments ^a	208.8	224.0	238.8	256.7	265.5	288.7	1,273.7	6.7
Premiums	<u>-20.2</u>	<u>-21.2</u>	<u>-23.0</u>	<u>-24.8</u>	<u>-26.7</u>	<u>-29.4</u>	<u>-125.2</u>	7.7
Total ^b	188.6	202.8	215.7	231.8	238.8	259.3	1,148.5	6.6
Memoranda:								
SMI Premium								
Under Current Law	\$43.80	\$45.80	\$47.10	\$48.50	\$50.00	\$51.50	n.a.	n.a.
Under Proposal	\$43.80	\$45.80	\$49.50	\$52.50	\$55.90	\$61.20	n.a.	n.a.

SOURCE: Congressional Budget Office.

NOTES: Numbers may not add to totals because of rounding; estimates exclude Administration's alternative policies; n.a. = not applicable.

- a. Includes mandatory administrative expenses.
- b. Excludes discretionary administrative expenses.
- c. Primarily the extension of secondary payer provisions.

HI trust fund will be depleted by the end of 2001. Similarly, Supplementary Medical Insurance (SMI) benefits will absorb an increasing share of general revenues.

The budget contains many proposals intended to reduce the growth of spending in Medicare. Those savings proposals would reduce Medicare outlays by \$99 billion over the 1998-2002 period. At the same time, the Administration is proposing to expand some benefits, which would cost \$17 billion. On balance, CBO estimates that the President's basic proposals would reduce Medicare spending by \$82 billion over five years and would slow the growth of net Medicare spending to 6.6 percent a year.

In contrast to CBO's figure of \$82 billion, the Administration estimates that its basic Medicare proposals would save \$100 billion over the 1998-2002 period—a difference of \$19 billion. CBO estimates that the President's proposed benefit expansions would cost \$4 billion more and that the proposed reductions would save \$15 billion less than the Administration assumes. CBO's estimate of reductions in payments to fee-for-service providers is \$11 billion smaller than the Administration's, and its estimate of savings in payments to managed care plans is \$4 billion less.

Payments to Fee-for-Service Providers

Over half of the savings in the President's plan would stem from curtailing payments to providers of health care services in Medicare's fee-for-service sector. The budget would limit increases in payments to hospitals for both inpatient and outpatient care, capital payments, and graduate medical education. It would also establish new prospective payment mechanisms for skilled nursing facilities and providers of home health care to slow the growth of spending in those sectors.

The growth in aggregate payments to physicians would be limited to the rate of growth in national income. In addition, new competitive payment mechanisms for laboratory services and suppliers of durable medical equipment would be established. The budget would ensure that those mechanisms reduced payment rates by at least 20 percent. Overall, payments to fee-for-service providers would be reduced by an estimated \$53 billion over the 1998-2002 period.

Payments to Health Maintenance Organizations

The President's proposals would reduce payments to risk-based health maintenance organizations (HMOs) by \$30 billion compared with current-law levels. Because payments to HMOs are linked to spending in the fee-for-service sector, much of that reduction would come from slowing the growth in payments to fee-for-service providers. In addition, the budget proposes to reduce the HMO payment rate from 95 percent to 90 percent of Medicare's adjusted average per capita cost (AAPCC) beginning in 2000.

The Administration would remove payments for disproportionate share hospitals (DSH) and graduate medical education from the AAPCC. That change would reduce average payment rates by an additional 5 percent. Removing those special payments from the AAPCCs would have little net budgetary impact, however, because the funds would be returned directly to DSH and teaching hospitals based on the number of HMO enrollees they served. (Those direct payments are included under payments to fee-for-service providers in Table 4.)

The Administration's proposal would narrow the gap between counties with high and low payment rates by phasing in a blend of local and price-adjusted national rates by 2002, and by setting a minimum payment rate of \$350 per month. It would also ensure that no county's payment rate in 1998 and 1999 was reduced from its level in the previous year. The proposal includes a computation for budget neutrality intended to ensure that the hold-harmless provision and the \$350 floor on payment rates would not increase HMO payments overall. The Administration would update the new payment rates by the growth in national Medicare spending per capita, with a minimum update of 2 percent a year beginning in 2000.

The Administration's proposal also contains several features intended to make HMOs more attractive to beneficiaries. It would allow Medicare to contract with additional types of plans (including preferred provider organizations and provider-sponsored networks), establish an annual open-enrollment period, provide beneficiaries with standardized comparative materials about plans, and guarantee that Medigap coverage would be available at community rates for beneficiaries choosing to disenroll from a Medicare HMO.

CBO estimates that the Administration's proposal would not significantly increase or decrease enrollment in managed care plans. Some elements of the proposal—such as using a coordinated enrollment period and contracting with new types of plans—would tend to expand the managed care program. But enhancing the benefits package in fee-for-service Medicare and reducing HMO payments relative to those in the fee-for-service sector would discourage enrollment.

Additional Benefits

The Administration proposes several improvements in Medicare's package of fee-for-service benefits. It would reduce the coinsurance rate for services provided in hospital outpatient departments, expand the range of services covered by Medicare, and reduce the late-enrollment penalty for people who do not enroll in the SMI program upon turning 65.

The largest expansion of benefits is a provision that would reduce the effective coinsurance rate paid by beneficiaries for services provided in hospital outpatient departments. Under current law, the coinsurance rate is

much higher than the 20 percent rate applied to other SMI benefits because it is based on hospital charges rather than on Medicare's allowed payments. As part of its proposal to restructure payments for hospital outpatient services, the Administration proposes to phase in a reduction in the coinsurance rate for services provided in hospital outpatient departments from the nearly 50 percent projected under current law in 1998 to 20 percent by 2007. That provision would cost \$7 billion over the 1998-2002 period and more than \$10 billion a year by 2007 when fully phased in.

Most of the new services that would be covered are preventive in nature. The Administration would cover screening for colorectal cancer, annual mammography (with no cost sharing), glucose monitors, test strips, and education for diabetics. Respite care of up to 32 hours a year would be provided for the families of Medicare beneficiaries with Alzheimer's disease or other severe mental impairments. Those new benefits would increase Medicare spending—net of any savings attributable to avoided illness—by \$7½ billion over the 1998-2002 period.

The Administration's proposal to reduce the penalty for late enrollment would increase Medicare benefits by \$3 billion over the 1998-2002 period.

Under current law, people who do not enroll in the SMI program upon turning 65 pay a premium that is 10 percent higher for each year that they delay enrollment and are not covered by a group health insurance plan. This proposal would encourage people to enroll in the program who would not have done so otherwise. Medicare's costs would increase because the additional premiums would cover only 25 percent of the additional benefits.

Other Changes in Spending

The Administration would achieve \$8½ billion in savings over five years from reductions in spending that do not fall neatly into one of the previous categories. More than \$7 billion of that amount would stem from extending three provisions of the Omnibus Budget Reconciliation Act of 1993 that make Medicare the secondary payer for certain beneficiaries who are also covered by employment-based or other health insurance.

Premiums

Premiums paid by beneficiaries now cover 25 percent of spending for Supplementary Medical Insurance. Under current law, however, SMI premiums may increase by no more than the Social Security cost-of-living adjustment after 1998, and the share of costs covered by premiums will then begin to shrink by about 1 percentage point a year. The Administration would maintain the share of SMI spending covered by premiums at 25 percent after 1998. In conjunction with other proposals in the budget, this change would increase receipts by \$8 billion over the 1998-2002 period. Premium receipts would grow by 8 percent a year, up from 5 percent a year under current law. In 2002, the projected SMI monthly premium would be \$61.20 under the Administration's proposal, compared with \$51.50 projected under current law.

Status of the HI Trust Fund

The Administration proposes to transfer spending for certain home health visits from the HI program to the SMI program. The transfer would have no impact on total Medicare spending, but it would help preserve the solvency of

the HI trust fund. CBO estimates that the Administration's policies would maintain a positive balance in the HI trust fund through at least the end of 2007.

Under the Administration's proposal, the HI program would retain responsibility for the first 100 visits in an episode of home health care following a hospital stay of at least three days. SMI would pay for all other home health visits—about 65 percent of the total. Home health visits would not be subject to coinsurance or the SMI deductible and would not affect the SMI premium. After taking account of the proposal to reduce payments to home health providers, the Administration would shift about \$86 billion in spending from HI to SMI over the 1998-2002 period.

MEDICAID

CBO projects that federal outlays for Medicaid will grow from \$99 billion in 1997 to \$144 billion in 2002 under current law—an average annual increase of just under 8 percent (see Table 5). Medical assistance payments, the largest component of spending, are projected to rise from about \$84 billion to \$123 billion by 2002.

The President's basic budget includes proposals that would produce budgetary savings in Medicaid, as well as several measures that would increase Medicaid spending. The net effect of those policies is to reduce Medicaid spending by \$7½ billion over the 1998-2002 period compared with current law. In addition, the budget makes a number of proposals that would increase the flexibility of states in administering the Medicaid program. Although CBO's baseline projections for Medicaid are slightly higher than those of the Administration, CBO and the Administration have similar estimates of the President's proposed changes in policy.

TABLE 5. CBO ESTIMATE OF THE PRESIDENT'S MEDICAID PROPOSALS
(By fiscal year, in billions of dollars)

	1997	1998	1999	2000	2001	2002	Total, 1998-2002	Average Annual Rate of Growth, 1997-2002 (Percent)
CBO Baseline								
Federal Outlays	98.6	105.3	113.6	122.9	132.8	143.8	618.4	7.8
Proposed Changes								
Savings Proposals								
Per capita cap ^a	0	0	-0.2	-1.5	-2.9	-4.7	-9.3	n.a.
Reductions in								
DSH payments ^b	0	-0.3	-2.1	-3.8	-4.7	-5.6	-16.6	n.a.
Supplemental payments ^c	0	0	1.0	0.8	0.6	0.4	2.8	n.a.
Subtotal	0	-0.3	-1.3	-4.6	-7.0	-9.9	-23.1	n.a.
New Initiatives								
Children's health	0	1.0	1.1	1.1	1.2	1.3	5.7	n.a.
Retain benefits for disabled children	d	0.1	0.2	0.2	0.2	0.2	1.0	n.a.
Retain benefits for certain aliens	0.1	0.9	1.0	1.1	1.3	1.6	5.8	n.a.
Payments to the District of Columbia	0	0.1	0.2	0.2	0.2	0.2	0.9	n.a.
Other proposals	0	d	0.4	0.5	0.6	0.8	2.2	n.a.
Subtotal	0.1	2.1	2.8	3.1	3.5	4.1	15.6	n.a.
Total	0.1	1.8	1.5	-1.5	-3.5	-5.8	-7.5	n.a.
CBO Estimate of the President's Proposal								
Federal Outlays	98.8	107.1	115.2	121.4	129.3	138.0	610.9	7.0

SOURCE: Congressional Budget Office.

NOTES: DSH = disproportionate share hospital; numbers may not add to totals because of rounding; estimates exclude Administration's alternative policies; n.a. = not applicable.

- a. Assumes a per capita growth rate equal to the growth of gross domestic product per capita plus 2 percentage points in 1997 and 1998, 1.5 percentage points in 1999, and 0.5 percentage points in 2000 and thereafter.
- b. Assumes DSH payments would be limited to \$10 billion in 1998, \$9 billion in 1999, and \$8 billion in 2000 and thereafter.
- c. Assumes that supplemental payments for federally qualified health centers, rural health clinics, and other purposes would total \$2.8 billion.
- d. Less than \$50 million.

Savings Proposals

The President's budget would achieve savings in Medicaid by placing caps on federal payments to states for each beneficiary and by limiting the growth in those caps to slightly more than the rate of economic growth per person. Separate caps would be established for the four main groups of people eligible for Medicaid—the aged, disabled, children, and other low-income adults—but states whose average spending for one group was below the cap could apply the savings to other groups. CBO estimates that the per capita caps would save \$9 billion over the 1998-2002 period, with most of the savings occurring in the last two years.

The President also proposes to limit Medicaid's payments to disproportionate share hospitals to \$10 billion in 1998, \$9 billion in 1999, and \$8 billion in 2000 and thereafter. That change would save \$17 billion over the 1998-2002 period compared with current law. The savings would be partly offset by almost \$3 billion in supplemental payments for federally qualified health centers, rural health clinics, and other purposes.

New Initiatives

Several provisions of the Administration's budget would expand Medicaid spending. First, the budget would cover additional children by allowing states to guarantee at least 12 months of continuous eligibility when a child becomes eligible for Medicaid. It would also increase Medicaid enrollment among children who are already eligible for benefits as a by-product of giving states grants to expand children's health coverage. CBO estimates that those changes would cost \$6 billion over the 1998-2002 period. Second, the budget proposes to repeal provisions in last year's welfare reform law that removed certain legal aliens and disabled children from the Medicaid rolls. Reinstating those beneficiaries would cost \$7 billion over five years. Finally, other changes in Medicaid—including the effects on Medicaid of the Administration's proposals for Medicare—would cost \$3 billion.

OTHER HEALTH INSURANCE PROPOSALS

The President's budget would create three new federal grants to states for the purpose of expanding health insurance coverage. First, the budget would

provide nearly \$10 billion over the 1998-2001 period for programs providing health insurance to certain unemployed workers and their families. The budget includes no funding for those grants in 2002. Second, grants of \$750 million a year would be made available to expand health insurance coverage among children. As noted above, CBO estimates that the resulting outreach efforts would also generate additional costs for the Medicaid program. Finally, \$25 million a year would be devoted to helping establish health insurance purchasing cooperatives. In total, those three grants would cost \$14 billion over the next five years.

WELFARE PROGRAMS

The President proposes to modify portions of last year's welfare reform law and to provide additional support to people who are making the transition from welfare to work.

Legal Aliens

The budget's proposed changes to welfare reform would exempt aliens who became disabled after entering the United States from the new restrictions on Supplemental Security Income (SSI) and Medicaid benefits. In addition, the President proposes to extend from five to seven years the period that refugees and asylees may receive SSI benefits after admission to the United States. Because of the difficulty in establishing the onset of disability for immigrants and because determining disability for the aged is problematic, CBO estimates that nearly all aliens who would otherwise be barred from SSI disability benefits and two-thirds of the aged would be able to secure eligibility for SSI benefits under this proposal. The two proposals would increase SSI spending by \$9 billion over the 1997-2002 period.

Welfare-to-Work Proposals

The Administration's welfare-to-work proposals would increase federal spending by \$3 billion and reduce revenues by \$1 billion over the next five years. The Administration is requesting mandatory appropriations of

\$0.8 billion in 1998, \$1.0 billion in 1999, and \$1.2 billion in 2000 for state and local governments to help long-term welfare recipients obtain jobs. The Administration would extend the Work Opportunity Tax Credit and expand its coverage to include credits for employers who hire able-bodied individuals age 18 to 50 who would be affected by the new work requirements in the Food Stamp program. It would also create a new credit for employers who hire long-term welfare recipients.

A Balanced Budget Plan that's Tough but Fair

Key Points to Make About the President's Budget

- **Tough Choices are Made Now.** The President's budget makes the hard choices today to balance the budget by 2002. It locks in savings of \$350 billion over five years -- including \$137 billion in discretionary spending, \$100 billion in Medicare, and \$34 billion in corporate tax subsidies. The credibility of the budget is underscored by the fact that it is the first Presidential budget declared "alive on arrival" since 1981.
- **Cuts are Sustainable and Workable.** The President's budget cuts non-defense discretionary spending by 9 percent in real terms over five years, while protecting investments in the President's priorities. The spending path is reduced slowly and steadily.
- **Built on Solid, Conservative Economic Forecasts.** The President's budget is based on prudent and conservative assumptions about future economic performance. For four years in a row, growth has been higher and the deficit has been lower than the Administration had predicted. The actual deficit has been \$50 billion lower we had forecast a year earlier -- a healthy break from the rosy scenarios of the previous two Administrations, in which the deficit was larger than forecast in 10 out of 12 years. In 1996, the President's budget office's estimate of growth and the deficit were too cautious -- and more accurate than the Congressional Budget Office's forecasts.
- **Major Investment in Education.** The President's plan makes a dramatic investment to open the doors of college to more Americans. It includes the largest increase in the maximum Pell Grant in two decades, provides a yearly \$1,500 HOPE scholarship tax credit, and creates a \$10,000-a-year tuition tax deduction for college costs to make education more affordable. It also expands IRAs, which in conjunction with the tuition tax deduction, allows families to save and pay for college tax-free.
- **Expanding Health Care and Investments in Children.** The President's plan makes critical savings in health care, while expanding coverage for as many as 5 million children. It also expands Head Start to meet our target of 1 million children by 2002; and increases funding in children's nutrition and prenatal programs (WIC) to \$4.1 billion.
- **Hard-Nosed Measures to Trim Corporate Subsidies.** The President's plan achieves more than \$34 billion dollars by cutting corporate subsidies. Those savings -- achieved by closing unwarranted and unnecessary tax loopholes, and by stiffening compliance measures -- are three times as much as the proposed savings in GOP Budget Chairman John Kasich's plan.

QUESTIONS & ANSWERS

Q: DOESN'T YOUR BUDGET AVOID ALL THE PAINFUL DECISIONS NEEDED TO ELIMINATE THE DEFICIT?

- A:
- Not at all. We are locking in savings of \$350 billion over the next 5 years -- including \$137 billion in discretionary spending, \$100 billion in Medicare savings (\$138 billion over 6 years), and \$34 billion in reducing unneeded corporate tax subsidies -- and cutting the deficit by \$252 billion. Our budget will eliminate the deficit by the year 2002, the first time we will have balanced the budget since 1969.
 - We have carefully examined the budget for areas in which we can achieve savings. Our Medicare and Medicaid proposals achieve \$110 billion in savings over the next five years, and extend the life of the Medicare Trust Fund to 2007, while maintaining the integrity of both programs. Our non-defense discretionary outlays follow a smooth, steady decline -- falling by 9 percent in real terms between FY 1997 and 2002.
 - The Budget includes specific, credible cuts in many areas. In addition to the savings from Medicare, Medicaid, and unwarranted corporate subsidies, the budget reduces non-defense discretionary spending by 9 percent in real terms over 5 years. As just a few examples, we are reducing funding for Federal building construction; for the Corps of Engineers (as part of our effort to target new construction to projects that are national priorities); for P.L. 480 farm subsidies (farm incomes are at record levels); and for Clean Coal Technology projects that are no longer economically viable. We're also cutting USDA buildings and facilities, international conferences and contingencies, the Overseas Private Investment Corporation, and GSA Operations.

Q: DOESN'T YOUR BUDGET ACHIEVE 75 PERCENT OF ITS SAVINGS IN THE FINAL TWO YEARS?

- A:
- Our budget is not backloaded. Just take a look at our record. We've already cut the deficit from \$290 billion in 1992 to \$107 billion last year. When the President took office, the deficit had to be cut by a cumulative \$2.75 trillion between 1993 and 2002 in order to reach balance by 2002. We have already locked in \$2.5 trillion of those savings, and this budget would lock in the extra \$250 billion needed. *The fact is that we've done most of the work in our first 4 years.*
 - We are making the hard decisions now. We are locking in savings of \$350 billion over the next 5 years -- including \$137 billion in discretionary spending and \$100 billion in Medicare savings (\$138 billion over 6 years) -- and cutting the deficit by \$252 billion.

- As with any credible budget plan, the savings from making those hard decisions now grow over time. Our savings are not backloaded: 67 percent of the \$350 billion in savings occur in the last two years. That's within the range that Robert Reischauer, the former director of the CBO, has proposed as showing that the budget cuts are smooth and *not* backloaded. And over 6 years, only 61.7 percent of our savings occur in the final two years.

Q: DOESN'T YOUR BUDGET FAIL TO BALANCE UNDER CBO ASSUMPTIONS?

- A:**
- We have submitted a plan that balances the budget in 2002 under our assumptions. Our assumptions have proven to be conservative over the past four years: *every year, the deficit has been lower and growth has been higher than we had predicted.* Our current assumptions are equally prudent and conservative.
 - Since we took office, the actual deficit has on average been about \$50 billion lower than we had projected the year before. CBO has been less accurate: they have overestimated the deficit by \$59 billion on average.
 - It is important that the numbers we use as part of a balanced budget agreement be credible and conservative -- and that they are supported by both the markets and the public. Our projections for GDP growth and inflation over the next five years match those of the Blue Chip private sector consensus.
 - If, despite our expectations, our assumptions do not prove correct, we will pursue an expedited process with Congress to agree on how to close any budget gap. And in order to ensure that we eliminate the deficit in 2002, we have identified precisely what steps would be taken by statute if our assumptions prove inaccurate and the expedited process with Congress doesn't work. Specifically, most of our tax cut proposals would sunset in 2001, and a 2.25 percent across-the-board reduction in spending (except Social Security) would be triggered. The discretionary spending reductions would start in 2001 and the reductions in mandatory programs would begin in 2002.

Q: YOU HAVE INCLUDED A HOME HEALTH CARE TRANSFER GIMMICK IN THE BUDGET. HOW CAN YOU POSSIBLY DEFEND IT?

- A:**
- Let's be clear: our savings of \$138 billion in Medicare over 6 years (\$100 billion over 5 years) does *not* include the home health care transfer from Part A to Part B of the program. The \$138 billion is the net reduction of Medicare spending relative to the budget baseline -- and thus is the amount by which our Medicare changes contribute to deficit reduction. The transfer does not contribute to the \$252 net deficit reduction in our package.

- The policy you mentioned was in our budget last year and it was in the House Republican budget in 1995 which every Republican in the House voted for. It is also included in this year's Blue Dog Coalition budget,
- Shifting long-term home health visits (other than the first 100 visits following a hospitalization) away from Part A of the Medicare program makes sense because home health care has increasingly become a chronic care benefit not linked to hospitalization. It was also the established policy prior to the 1980s. And it protects the Medicare Trust Fund until 2007, while not imposing harmful cuts on hospitals or other priorities, or excessive burdens on beneficiaries.

[Background: Originally designed as a post-acute care benefit for beneficiaries who had been hospitalized, home health care has increasingly become a chronic care benefit, not linked to hospitalization. Our proposal restores the original split of home health care benefits so that the first 100 home health visits following a 3-day hospitalization would be reimbursed by Part A and all other visits -- including those not following hospitalization -- would be reimbursed by Part B.]

Q: FOLLOW: IF THE HOME HEALTH TRANSFER IS NOT A GIMMICK, THEN WHY DON'T YOU INCLUDE IT AS PART OF THE PART B PREMIUM?

- A:**
- We have always been concerned about out-of-pocket costs for Medicare beneficiaries. Older Americans spend, on average, 20 percent of their income on health care and three-fourths have incomes lower than \$25,000. We have to be careful that as we reform the Medicare program, we do not place undue burden on lower-income seniors.

Q. DOESN'T YOUR BUDGET CREATE \$60 BILLION IN NEW ENTITLEMENTS?

- A.**
- No. My budget actually *saves* \$121 billion in entitlement spending over the next 5 years.
 - We are proposing some new additions to our health care programs, but they are aimed at reducing the number of uninsured Americans and are *not* open-ended entitlements. For example:
 - Our program to provide health insurance for unemployed workers is capped. The program is structured as a grants program to States. While there are provisions to help States that have unanticipated increases in unemployment, there is an overall Federal cap on spending that cannot be breached. Moreover, the program is sunset after 4 years.

-- There are no new entitlements in children's health as well. The children's health initiative also contains no new individual entitlement. It provides States with grants that, by law, will not exceed \$750 million in each year. Medicaid spending itself, under my plan, will be capped for the first time in its history. The Federal funding limits are set based on the number of people covered so that States — not the Federal government — make the decisions about coverage.

- We are also proposing some changes to the welfare reform legislation that was enacted last year, but our purpose is to fix unnecessary and damaging provisions in that legislation -- involving legal immigrants and Food Stamp recipients. We do not view these changes as new spending or new entitlements.
- It is ironic that we are sometimes criticized for phasing out new proposals -- such as school construction -- and simultaneously for creating permanent new mandatory spending programs. Our phase-outs are designed to allow an evaluation of how well the new programs are working -- and we have been careful to avoid creating permanent new entitlements without knowing the effects.

Q: WHY DO YOU ELIMINATE MANY OF YOUR NEW PROGRAMS BEFORE 2002?

- A.**
- Many of our proposals -- such as school construction, welfare to work, skill grants, and health insurance for the unemployed -- are new programs. They are untried. We want to see how they work before the government funds these initiatives permanently.
 - For example, our school construction initiative -- providing \$5 billion over 4 years -- is explicitly designed to jump-start \$20 billion in local projects. The Federal government has traditionally not been involved in school construction and renovation; our proposal is therefore not supposed to be a permanent Federal program.

**PRESIDENT CLINTON'S
FISCAL YEAR 1998
BALANCED BUDGET**

Summary Documents

February 1997

TABLE OF CONTENTS

- I. 2-Page Summary of President Clinton's FY 1998
Balanced Budget
- II. 1-Page Summary of Savings in the Budget
- III. 2-Page Chart on Selected Clinton Administration
Discretionary Investments
- IV. 1-Page Summary on Tax Cuts in the President's
Budget
- V. 1-page Summary of the President's Medicare Reform
Package
- VI. 1-Page Summary of President Clinton's Record on
Deficit Reduction
- VII. 1-Page Summary on Government Spending under
President Clinton
- VIII. 1-Page Summary on Credibility of Clinton
Administration Budget Assumptions
- IX. 1-Page Chart on Clinton Administration Higher
Education Initiatives

PRESIDENT CLINTON'S FY 1998 BALANCED BUDGET

Summary Talking Points: February 6, 1997

A BALANCED BUDGET THAT REFLECTS AMERICA'S VALUES. President Clinton's budget demonstrates that we can move the country beyond the false choices of the past -- and that we can finish the job of balancing the budget, to lower interest rates and keep the economy growing, while still investing in key priorities such as education that help the American people thrive and our economy grow.

A DETAILED PLAN TO BALANCE THE BUDGET IN 5 YEARS.

- **Protect and Strengthen Medicare & Medicaid.** Extend the life of the Medicare Trust Fund well into the next century. Protect the fundamental guarantee of health benefits for the disabled, nursing home residents, & strengthen health coverage for children.
- **Invest in Education -- our nation's number 1 priority for preparing for the next century.**
- **Strengthen environmental protections.**
- **Build on the Vice-President's efforts to make our government work better and cost less.**
- **Provide middle-class tax relief to pay for education, health care, to help raise a child and buy and sell a home.**

BUILD ON PRESIDENT CLINTON'S RECORD ON DEFICIT REDUCTION.

- We have cut the deficit by 63% after it had quadrupled during the previous 12 years.
- We now have a smaller deficit as a share of GDP than any other major country in the world.
- FY98 budget builds on this progress and reaches balance by 2002 while investing in the future.

MEETING REPUBLICANS HALFWAY ON MEDICARE.

On difficult issues such as Medicare reforms, the President shows that he is serious about reaching a bipartisan agreement to balance the budget.

- **The President's Balanced Budget uses responsible Medicare policies to strengthen the life of the Trust Fund without placing unnecessary burdens on beneficiaries.** The President's plan achieves \$100 billion of savings over 5 years (\$138 billion over 6 years) through several reforms including reducing reimbursement to managed care. The plan also guarantees the solvency of the Part A trust fund until 2007 while maintaining choice and the high-quality of Medicare services.

TAX CUTS FOR FAMILIES WHEN THEY NEED IT MOST.

The President's budget provides about **\$100 billion of tax cuts over the next five years** to help families:

- Raise their **children** (\$500 per child),
- Send them to **college** (\$1,500 HOPE Scholarship and \$10,000 tuition tax deduction),
- Save for the **future** (penalty-free withdrawals from IRAs for education and first homes; tax-free savings for education through combined use of the tuition tax deduction and education IRA);
- Buy and sell their **homes by the exclusion of \$500,000 of capital gains** on the sale of the home,
- **Move from welfare** to work with tax incentives to businesses, by allowing employers a 50% credit on the first \$10,000 of annual wages that they pay to long-term welfare recipients.
- And tax incentives to boost **investment** in distressed areas and promote hiring of the economically disadvantaged.

INVESTING IN THE FUTURE. The President's budget maintains our critical priorities by increasing our investments in health care, education and training, the environment and science and technology. It also establishes new initiatives important new initiatives to help prepare America for the 21st century.

Health Care:

- Helps an estimated **3.3 million families, including 700,000 children**, keep their health care coverage for up to six months until their breadwinners find new jobs.
- Provides **health insurance coverage** for millions of children who are uninsured.
- Invests more in the **Ryan White AIDS program and in biomedical research** at NIH to find ways to prevent and treat diseases.
- Establishes a new **Alzheimer's respite benefit** within Medicare and provides for an **annual mammogram** without copayments.

Education and Training:

- Increases funding for **Head Start** by 55%, from \$2.8 billion in FY93 to \$4.3 billion in FY98.
- Increases **GOALS 2000** funding by 26% to help states raise educational achievement.
- Doubles funding to \$500 million next year for the **Technology Literacy Challenge** and a related program to help ensure that all children are technology literate by the turn of the century.
- Includes the largest increase in the maximum **Pell Grant scholarship** in two decades, a \$1.7 billion increase in aid over FY97, and expanded eligibility for at least 348,000 more students.
- Creates the **America Reads Challenge** to help insure that all children can read well and independently by the end of third grade (\$2.75 billion over five years.)
- Creates a \$5 billion new **school construction** fund over four years to spur \$20 billion in school construction and renovation.

Environment:

- Funds the **Kalamazoo Initiative** to protect communities from **toxic pollution** by the 2000.
- Increases funds for the **National Park System** to help improve park facilities and further protect our national and cultural treasures.

Crime:

- Funds **17,000 more police**, helping to move towards the President's goal of 100,000 new police by the year 2000.
- Increases funds for the Drug Courts initiative, for drug testing, for the **Safe and Drug-Free Schools** initiative and other programs to fight drugs.
- Funds **7,359 Border Patrol agents** -- 85% more than in FY93 -- to control illegal immigration.

A BALANCED BUDGET PLAN THAT CLOSSES LOOPHOLES AND SPECIAL INTEREST PROVISIONS.

To protect priorities like Medicare, Medicaid, education and the environment, the President believes we should also be closing loopholes and special interest provisions.

- The President's budget proposes approximately **\$34 billion** of business tax base broadeners, tax loophole closers and tax compliance measures for FY 1998-2002.

LET'S BUILD ON OUR PROGRESS.

We have cut the deficit by 63%. Deficit reduction has reduced interest rates, and spurred strong investment and the creation of over 11 million new jobs. Now, we must work together to achieve a real and solid balanced budget that keeps America strong and growing.

PRESIDENT'S BUDGET CUTS \$252 BILLION OVER 5 YEARS

PRESIDENT CLINTON'S BUDGET:

- ⇒ **PRODUCES \$350 BILLION IN SAVINGS OVER 5 YEARS**
- ⇒ **CUTS NET SPENDING BY \$275 BILLION**
- ⇒ **CUTS NET SPENDING, INCLUDING CORPORATE SUBSIDIES, BY \$309 BILLION**
- ⇒ **CUTS THE DEFICIT BY \$252 BILLION**

THE BUDGET SAVES \$350 BILLION OVER 5 YEARS, INCLUDING:

- It saves \$137 billion in discretionary spending, by cutting unnecessary and lower-priority spending areas;
- It saves \$100 billion in Medicare (\$138 billion over six years), extending the life of the Part A Trust Fund to 2007 while maintaining the high-quality of Medicare services. It also saves \$9 billion in Medicaid -- \$22 billion in gross savings offset by a \$13 billion related to the welfare reform law and new children's health initiatives.
- It saves \$34 billion by reducing corporate subsidies.

THE BUDGET CUTS THE DEFICIT BY \$252 BILLION:

- It cuts taxes by \$98 billion, providing tax relief to tens of millions of middle-income Americans and small businesses, while extending several expired tax provisions.

AREA	SAVINGS OVER 5 YEARS, 1998-2002
<i>Discretionary spending</i>	\$137.4 billion
<i>Medicare</i>	\$100.2 billion*
<i>Medicaid</i>	\$9.3 billion**
<i>Spectrum sales/mandatory spending</i>	\$11.8 billion
<i>Net interest</i>	\$15.9 billion
NET SPENDING CUTS	\$275 billion
<i>Corporate subsidies</i>	\$34.3 billion
TOTAL CUTS INCLUDING CORPORATE LOOPHOLES	\$309 billion
<i>Extending tax provisions</i>	\$41.7 billion
TOTAL SAVINGS	\$350 billion
<i>Tax cuts</i>	-\$98.4 billion
TOTAL DEFICIT REDUCTION	\$252 billion

* \$138 billion over six years

** \$22 billion in gross savings offset by \$13 billion additional spending for children's health and other initiatives

SELECTED CLINTON ADMINISTRATION DISCRETIONARY INVESTMENTS

INITIATIVE	FY93-FY97 INVESTMENT	IMPACT	FY98 BUDGET
EDUCATION AND TRAINING: <i>The President's FY98 Budget increases funding 33% for major education and training discretionary programs compared to FY93, providing \$51 billion for all FY98 education & training.</i>			
Goals 2000	<i>Created Goals 2000 to support state-developed academic standards and school reform, supporting reform in 1,000 schools in 1994.</i>	<i>Goals 2000 is now supporting school reforms in all 50 states.</i>	<i>Increases funding 26% in FY98 to \$620 million, supporting standards-based reform in 16,000 public schools across the 50 states.</i>
Technology Literacy Challenge (TLC)	<i>Created and funded in FY97 at \$200 million to help ensure that all children are technologically literate by the dawn of the 21st century.</i>	<i>Funds state-wide plans to wire schools, train teachers, and purchase educational software and on-line resources.</i>	<i>More than doubles funding in FY98 to \$425 million and provides \$2 billion over 5 years. Provides \$500 million for the TLC and a related grant program in FY98.</i>
Pell Grants	<i>Increased the maximum Pell Grant 17%, from \$2,300 in FY93 to \$2,700 in FY97, increasing college opportunities for low-income students.</i>	<i>3.7 million low-income students currently receive Pell Grants of up to \$2,700.</i>	<i>Increases the grant from \$2,700 to \$3,000 in FY98 -- the largest increase in two decades. Provides \$1.7 billion more aid in FY98 than FY97, making 348000 more families eligible.</i>
Dislocated Worker Assistance	<i>Doubled funding for dislocated workers, from \$651 million in FY93 to \$1,286 million in FY97. Will assist 580,000 workers this year.</i>	<i>Provides 274,000 more workers in FY97 with job training and search services to help them find jobs more quickly.</i>	<i>Increases funding to \$1,350 million to serve 605,200 dislocated workers in FY98, double then number in FY93.</i>
EARLY CHILDHOOD DEVELOPMENT AND HEALTH:			
Head Start	<i>Increased funding 43% from \$2.8 billion in FY93 to \$4.0 billion in FY97. Created the Early Head Start program in 1994 to support zero-3 year olds and their families.</i>	<i>Serves 800,000 low-income 3- and 4-year olds this year, including thousands of 0-3 year-olds and their families.</i>	<i>Provides a \$324 million increase in FY98, serving 122,100 more children than in FY93 while continuing to increase program quality and the 0-3 program, and on track to serve 1 million children in 2002.</i>
WIC Supplemental Nutrition Program	<i>Increased funding nearly \$1 billion or 34% to \$3.83 billion in FY97. Provides nutrition packages, nutrition education and health referrals to low-income pregnant women, infants, and children.</i>	<i>Expanded participation by 1.7 million since 1993, or 30% with the requested supplemental, from 5.7 to 7.4 million women, infants, and children.</i>	<i>Increases funding to \$4.1 billion to achieve the President's goal of full participation by the end of FY98. Research shows that WIC prenatal services save Medicaid much more by reducing health care costs in the first 60 days after birth.</i>
Ryan White AIDS Treatment	<i>Increased funding 158%, to \$996 million in FY97. Provides grants to states and to 49 hard-hit cities, double the number in FY93.</i>	<i>This program may be partly responsible for the 30% decline in AIDS deaths in NYC in 1996.</i>	<i>Provides a 221% increase for State AIDS Drug Assistance since 1996 to expand access to effective new medications to those who could not otherwise afford them.</i>
National Institutes of Health	<i>Increased funding 23%, to \$12.7 billion in FY97. NIH now supports 32,000 grants in more than 1,700 universities, medical schools, and other research institutions.</i>	<i>Research has contributed to major advances in treating people with HIV and in medications for Alzheimer's disease.</i>	<i>Increases funding by \$337 million to maintain NIH's leadership in medical research.</i>

INITIATIVE	FY93-97 INVESTMENT	IMPACT	FY98 BUDGET
ENVIRONMENT:			
Superfund	Reformed program, cut cleanup costs 20%, cleaned up 260 toxic waste sites in the last 4 years.	Cleaned up more sites in the last 4 years than in the previous 12.	Increases funding 50% from FY97 to clean up an additional 500 sites by the year 2000 -- 2/3 of all listed sites.
Environmental Enforcement	Increased funding 12% to \$3.1 billion for EPA operations including enforcement.	Will cut chemical plant toxic air emissions 90% and enforced.	Standards to cut chemical plant toxic air emissions 90%, stronger enforcement.
National Parks	Increased operations funding 17% to \$1.2 billion. 4% increase in the number of parks since 1993.	Maintaining parks for 275 million annual visitors.	Increases funding 6% to increase maintenance and keep up with increasing visitorship.
COMMUNITY:			
AmeriCorps National Service	Created the AmeriCorps in 1993 to enable young people to earn money for college while serving their communities.	Enabled 70,000 young people to earn money for college through services in 3 years.	Funds 35,000 participants and increases funding 31% to provide tutor coordinators for the President's America Reads Challenge.
Community Development Institutions	Created Community Development Financial Institutions Fund to expand access to credit and capital to distressed communities.	Awarded \$37 million in financial and technical assistance to 32 CDFIs in 1996.	Increases funding 150% to \$125 million in FY98, and invests \$1 billion over the next 5 years.
Ezs/ECs	Created the first federal Empowerment Zones and Enterprise Communities in 1994, providing assistance to distressed urban and rural communities.	Designated 105 EZs/ECs, providing \$2.5 billion in tax incentives & \$1 billion in funding over 5 years.	Proposes to double the number of EZ/ECs with a second round of designations, and tax incentives to spur the clean up and development of "brownfield" industrial sites.
CRIME:			
Community Policing: COPS	Created COPS program in 1994 Crime Bill to put 100,000 more community police on the streets.	Will have funded 64,000 police by the end of FY97.	Proposes funding for an additional 17,000 officers, on track to fund 100,000 by the year 2000.
Federal Prisons	Increased funding 62% to \$1.4 billion in FY97 to open new federal prisons.	Reduced overcrowding while prison population expanded 38%.	Continues to increase funding for new federal prisons and to continue to reduce overcrowding.
INS Border Patrols	More than doubled funding to \$729 million in FY97.	6,859 border patrol agents -- 2,894 more.	Funds 7,359 agents -- 85% more than in FY93.
TECHNOLOGY:			
Advanced Technology Program	Increased funding 231% to \$225 million in FY97 to develop new technologies with private sector.	Funds high risk technologies w/ large potential public benefit.	\$50 million increase to support about 90 new projects with 200 new participants.
Manufacturing Extension	Increased funding 428%, expanding from 7 to 78 extension centers.	Providing technical expertise to smaller manufacturers.	Increases funding an additional 29% in FY98 to help more small manufacturers increase sales & jobs.
NII and Next Generation Internet	Created the National Information Infrastructure program in 1994, funded at \$21 million in FY97.	NII supports innovative telecom demonstration projects.	Increases NII and proposes \$100 million for the next generation Internet: 100-1,000 faster than today's Internet.

SUMMARY OF TAX CUTS IN THE PRESIDENT'S BUDGET

\$100 BILLION IN TAX CUTS. President Clinton's 1998 budget provides nearly \$100 billion of tax cuts through FY 2002, including a child credit for middle-income families; tax cuts for education and training; expanded IRAs; targeted home-ownership tax cut; and tax incentives to boost investment in distressed areas and to promote hiring of the economically disadvantaged.

MIDDLE-CLASS TAX CUTS (\$90.8 BILLION). These proposals will help middle-class families pay the bills, raise their children, send them to college, upgrade their skills, and save for retirement.

- **Tax Credit for Dependent Children (\$46.7 billion):** Phased-in \$500 tax credit for dependent children.
- **Education and Training Tax Incentive (\$38.6 billion):** HOPE Scholarship tax credits of up to \$1,500 per year, for first two years of post-secondary education; a \$10,000 tax deduction for post-secondary education and training; income exclusion for forgiveness of certain student loans; and extending the exclusion for employer-provided educational assistance, reinstating exclusion for graduate courses, and providing small businesses a 10% income tax credit for employee education expenses.
- **Expand Individual Retirement Accounts (IRAs) (\$5.5 billion):** Double, over time, the income limits on deductible IRAs; expand penalty-free withdrawals to cover post-secondary education, unemployment expenses, and first-time home purchases; and add new "special" back-loaded IRAs.

TARGETED HOME-OWNERSHIP TAX CUT (\$1.5 BILLION). Allow exclusion of \$500,000 (\$250,000 singles) of capital gains from selling a home. This would exempt over 99% of home sales from capital gains taxes and dramatically simplify taxes and record-keeping for over 60 million homeowners.

TAX INCENTIVES FOR DISTRESSED AREAS (\$2.4 BILLION)

- **"Brownfields" Initiative:** Allow immediate expensing of certain costs to encourage firms to clean up abandoned, contaminated industrial properties in distressed urban & rural areas.
- **Incentives to Empower Communities:** Stimulate revitalization of economically distressed urban & rural communities by designating 20 additional Empowerment Zones and 80 additional Enterprise Communities, providing new tax incentives, additional small business expensing, and new private activity bonds.
- **Community Development Financial Institutions (CDFI) Tax Credit:** Provide \$100 million of credits to be allocated among equity investors in community development banks.

WELFARE-TO-WORK INITIATIVE (\$0.6 BILLION). To encourage hiring of long-term welfare recipients, provide a new welfare-to-work credit through September 30, 2000. It would allow employers a 50% credit on the first \$10,000 of annual wages that they pay to long-term welfare recipients for up to two years. Also expand the Work Opportunity Tax Credit to include certain able-bodied adults, ages 18-50.

SMALL BUSINESS AND FARM ESTATE TAX RELIEF (\$0.7 BILLION). To address cash-flow problems that may arise upon the death of a farmer or small business owner, increase the amount of property eligible for a favorable interest rate on deferred tax from \$1 million to \$2.5 million.

OTHER INITIATIVES. Extend for one year expiring tax provisions (R&E credit, Work Opportunity Tax Credit, others) (\$2.7 billion). Modify statutes of limitations on tax refunds to treat the disabled fairly (\$0.05 billion). Revitalize DC with tax incentives (\$0.26 billion) and provide a more efficient and effective tax incentive for Puerto Rico (\$0.417 billion). Allow FSC software benefits for computer software licenses (\$0.56 billion).

THE PRESIDENT'S MEDICARE REFORM PACKAGE

President Clinton's balanced budget balances our values and protects our priorities. It achieves \$100 billion in real scorable savings over 5 years, places no undue burdens on beneficiaries, modernizes and improves the program, and extends the life of the Medicare Trust Fund to 2007. This plan meets Republicans halfway -- and they have responded in a constructive and positive manner. The President looks forward to working with both Congressional Democrats and Republicans in a bipartisan process to protect Medicare.

The President's plan reforms and improves Medicare by:

- **Extending the life of the Medicare Trust Fund to 2007.**
- **Bringing the program into the 21st century by:**
 - ⇒ *Providing more choice by establishing new private health plan options.*
 - ⇒ *Establishing market-oriented purchasing for Medicare including new prospective payment systems and competitive bidding authority and centers of excellence to improve quality and cut back on costs.*
- **Adding Medigap protections to increase the security of Medicare beneficiaries.**

The President's plan explicitly:

- **Saves \$34 billion by reducing reimbursement to managed care** through a phased reduction in HMO payment rates and an indirect reduction in HMO payments associated with the traditional fee-for-service cuts.
- **Saves \$33 billion in hospital expenditures through reductions in hospital updates, capital payments etc.**
- **Saves about \$14 billion over 5 years through the transition to and establishment of a new prospective payment system and other programmatic changes in reimbursement to home health care.**
- **Saves about \$7 billion over 5 years through the transition to and establishment of a new prospective payment system and other programmatic changes in reimbursement to nursing home facilities.**
- **Saves about \$7 billion over 5 years through a modification of physician updates.**
- **Saves about \$9 billion over 5 years through new provisions to combat fraud and abuse.**
- **Saves about \$10 billion over 5 years by extending current law that sets the Part B premium at 25% of program costs.**
- **Invests \$15 billion over 5 years in preventive health care to improve seniors' health status, in establishing a new Alzheimer's respite benefit starting in 1998 and in buying down excessive outpatient copayments to the traditional 20% level.**

PRESIDENT CLINTON'S RECORD ON DEFICIT REDUCTION

- **CUT THE DEFICIT BY 63 PERCENT.** President Clinton has reduced the budget deficit by 63 percent -- from \$290 billion in FY 1992 to \$107 billion in FY 1996. [Based on data from OMB, *FY 1998 Budget*, February 1997.]
- **LOWEST DEFICIT SINCE THE EARLY 1970'S.** The deficit has fallen from 4.7 percent of GDP in FY 1992 to 1.4 percent in FY 1996 -- the lowest for any year since 1974. [Based on data from OMB, *FY 1998 Budget*, February 1997.]
- **LOWEST DEFICIT OF ANY MAJOR ECONOMY.** The total U.S. deficit in 1996 as a percentage of the economy was lower than for any other major country. [OECD, *Economic Outlook*, December 1996.]
- **MAKING GOVERNMENT MORE EFFICIENT.** Federal employment has fallen by 275,000 from its 1993 base. Federal employment as a share of total employment is the smallest it has been since the early 1930's. [Based on data from OMB, *FY 1998 Budget*, February 1997.]

AS A RESULT OF PRESIDENT CLINTON'S EFFORTS TO REDUCE THE DEFICIT, ECONOMIC PERFORMANCE HAS IMPROVED DRAMATICALLY:

- **INVESTMENT BOOM.** Deficit reduction has lowered interest rates and spurred investment. Equipment investment has grown by 10 percent per year under President Clinton -- faster than any Administration since John F. Kennedy was President. [Based on data from the Bureau of Economic Analysis, Department of Commerce.]
- **EMPLOYMENT BOOM.** Since January 1993, the economy has added more than 11 million new jobs - a faster rate of job growth than under any Republican Administration since the Roaring 1920's. [Based on data from the Bureau of Labor Statistics, Department of Labor.]
- **THE LOWEST COMBINED RATE OF UNEMPLOYMENT AND INFLATION SINCE JOHNSON.** The combined rate of unemployment and inflation has been lower under President Clinton than for any Administration since Lyndon Johnson was President. [Based on data from the Bureau of Labor Statistics, Department of Labor.]

THE EXPERTS AGREE THAT ECONOMIC PERFORMANCE HAS BEEN REMARKABLE;

- ✓ **Money Magazine:** President Clinton has "presided over the kind of economic progress any Republican President would be proud to post." [*Money Magazine*, August 1996]
- ✓ **Paul Volcker, former Chairman of the Federal Reserve:** "It's been a remarkable period of steady growth, low inflation and low unemployment." [8/3/96]
- ✓ **Allen Sinai, a leading economic forecaster:** "When the history book on this business cycle upturn is written, it will go down as the best ever, compared with other post-World War II upturns." [10/23/96]

THE FACTS ON GOVERNMENT SPENDING UNDER PRESIDENT CLINTON

SPENDING IS LOWER TODAY UNDER REAGAN OR BUSH:

- **FEDERAL SPENDING WAS LOWER IN 1996 -- AND IS EXPECTED TO REMAIN LOWER IN 1997 -- THAN IN ANY YEAR SINCE 1979.** Federal outlays as a share of GDP were lower in 1996 than in any year since 1979. And current projections suggest no increase in outlays as a percent of GDP during 1997. Outlays under President Clinton have been a smaller share of GDP than under Reagan or Bush. [Based on data from OMB, *FY 1998 Budget*, February 1997.]
- **SINCE PASSAGE OF PRESIDENT CLINTON'S 1993 DEFICIT REDUCTION PACKAGE, EXPECTED GOVERNMENT SPENDING BETWEEN 1993 AND 2002 HAS FALLEN BY MORE THAN \$1.4 TRILLION.** The President's budget will cut net spending by an additional \$275 billion by 2002 -- for a total spending cut between 1993 and 2002 of more than \$1.7 trillion. That's about \$25,000 for a family of four. [Based on data from OMB, *FY 1998 Budget*, February 1997.]
- **GROWTH IN TOTAL FEDERAL SPENDING HAS BEEN LOWER UNDER CLINTON THAN UNDER REAGAN OR BUSH.** Real Federal outlays have grown by 0.7 percent per year under President Clinton -- lower than under President Bush (2.6 percent per year) or President Reagan (2.6 percent per year). [Based on data from OMB, *FY 1998 Budget*, February 1997.]
- **WHILE MAINTAINING CRUCIAL INVESTMENTS IN PEOPLE, REAL DISCRETIONARY SPENDING HAS FALLEN UNDER PRESIDENT CLINTON -- A BETTER RECORD THAN UNDER REAGAN OR BUSH.** Real discretionary outlays have *fallen* by 2.5 percent per year under President Clinton -- lower than under President Bush or Reagan. [Based on data from OMB, *FY 1998 Budget*, February 1997.]
- **NON-DEFENSE DISCRETIONARY SPENDING IS NOW A SMALLER SHARE OF THE ECONOMY THAN IN 8 OF THE 12 YEARS UNDER REAGAN OR BUSH.** Non-defense discretionary outlays are now lower than in 8 of the 12 Reagan-Bush years. With the President's balanced budget plan, non-defense discretionary outlays will fall by 9 percent in real terms between 1997 and 2002. [Based on data from OMB, *FY 1998 Budget*, February 1997.]

⇒ SPENDING GROWTH LOWER UNDER CLINTON THAN UNDER REAGAN OR BUSH

	Federal outlays (% of GDP)	Real growth in Federal outlays (percent per year)
CLINTON	21.3	0.7
BUSH	22.1	2.6
REAGAN	22.5	2.6

[Based on data from OMB, *FY 1998 Budget*, February 1997.]

**THE CLINTON ADMINISTRATION'S BUDGET ASSUMPTIONS:
ESTABLISHING A CREDIBLE RECORD OVER THE PAST 4 YEARS**

- **A RECORD OF CREDIBLE FORECASTS.** For the past four years, the Clinton Administration has used middle-of-the-road economic forecasts for budgetary purposes. *For four years in a row, growth has been higher and the deficit has been smaller than we had projected.*
- **ACTUAL DEFICITS HAVE BEEN SMALLER THAN WE PREDICTED.** Between FY 1994 and FY 1996, the actual deficit has on average been about \$50 billion lower than we had projected the year before. CBO has been less accurate: their estimates have been off by \$59 billion on average.
- **THE 1996 DATA CONFIRM THE CREDIBILITY OF OUR FORECASTS.** The most recently available economic data confirm the credibility of our forecasts. **Our estimates of growth and the deficit for 1996 were too cautious --** and turned out to be more accurate than the Congressional Budget Office's forecasts.
 - In last year's budget, we projected that real growth during 1996 would be 2.2 percent. But the advance GDP data released in February indicate that growth in 1996 was 2.5 percent (on a year-over-year basis). While both the Administration's forecast and the CBO's forecast were conservative, ours was more accurate (CBO had predicted 2.0 percent). Over the past four years, our real GDP forecasts have been more accurate than CBO's.
 - The FY 1996 deficit was smaller than we had projected. Our projection for the FY 1996 deficit was \$170 billion in February 1994 and \$197 billion in February 1995. CBO's projections were \$177 billion in February 1994 and \$211 billion in February 1995. The actual deficit was only \$107 billion. Again, while both the Administration and CBO forecasts were conservative, ours were more accurate.
- **NO MORE ROSY SCENARIOS.** As in each of the four years that we have been in office, our estimates of growth in 1996 were thus too low and our estimates of the deficit too high -- confirming that the Clinton Administration does not use rosy scenarios for its budget projections.
- **MAINSTREAM PROJECTIONS FOR THE FUTURE.** Our forecasts for the next 5 years are also mainstream and conservative. For key budgetary variables such as GDP growth (2.2 percent per year) and GDP inflation (2.6 percent per year), **our assumptions match those of the Blue Chip private sector consensus.** While we think that the economy can grow faster than these forecasts would suggest, we continue to use prudent projections for budgetary purposes.

CLINTON ADMINISTRATION
HIGHER EDUCATION INITIATIVES

INITIATIVE	DESCRIPTION	AMOUNT	IMPACT
<i>Pell Grant Increase and Expansion</i>	Largest increase in two decades -- from \$2700 to \$3000. Combined with the FY97 increase, the scholarship has increased \$530 -- from \$2,470 in FY 96.	\$1.7 billion more than the FY97 appropriation -- a 25% increase in aid.	Over 3.6 million students now eligible will receive an increase up to \$300. This increase will also make an additional 130,000 families eligible for the grant.
<i>Pell Grant Expansion for Older, Low-Income Students</i>	Increases eligibility so any student from a low-income family can receive a Pell Grant.	\$3.9 billion over five years.	An additional 218,000 low-income students generally aged 24 or over will be newly eligible for Pell Grants. 891,000 students will receive an average increase of over \$800.
<i>Cut in Student Loan Fees</i>	Cuts loan fees from 4% to 2% on need-based Stafford loans -- and to 3% on other loans for students and parents.	\$2.6 billion over five years.	Loan fees will be cut in half for 4 million low- and middle-income students, and by a quarter for 2.5 million other loans.
<i>Hope Scholarship Tax Credits</i>	Up to \$1500 per-student tax credit for tuition in student's first year and another \$1500 in the second year if student earns at least a B average.	\$18.6 billion from 1997-2002.	Expected to help 4.2 million middle-income students in 1998.
<i>\$10,000 Tax Deduction for Higher Education and Training</i>	Phases up to a \$10,000 maximum deduction Also available for training.	\$17.6 billion from 1997-2002.	Expected to help 8.1 million middle-income students in 1998.
<i>Tax-Free Education Savings</i>	Families with incomes up to \$100,000 would be eligible for IRAs, and could make penalty-free withdrawals for higher education.	Education specific estimates not available.	Combined with tax deduction, the IRA savings for higher education for middle-income families will never be taxed. Will make over 20 million families eligible for such a benefit.
<i>Community Service: Work Study</i>	President has called on colleges to commit half of the increased funding for work study to support community service jobs.	\$240 million increase over FY96; \$120 million for work-study community service in FY98	1 million College Work-Study slots by the year 2000, including 100,000 reading tutors.
<i>Community Service: Loan Forgiveness</i>	The President's budget provides tax relief for community service loan forgiveness.	\$15 million between 1997-2002.	Not available.
<i>Presidential Honors Scholarships</i>	One-year, \$1,000 scholarships for the top 5% of all high school graduates in the country.	\$132 million in FY98.	Benefits 132,000 students who graduate from high school next year.
<i>Educational Assistance from Employers</i>	Extends tax exclusion from employer-provided education assistance through 2000, for both undergraduate & graduate education. Also provides a tax credit to encourage small businesses to offer educational assistance to employees.	\$2.4 billion between 1997-2001.	Benefits 1.7 million employees a year.

THE WHITE HOUSE
WASHINGTON

February 3, 1997

MEMORANDUM FOR THE CABINET

FROM: GENE SPERLING

SUBJECT: Budget Materials

Please find attached the following materials that we hope you will find helpful as the President's Fiscal Year 1998 budget is released this week:

- I. Summary of Tax Cuts in the President's FY 1998 Budget
- II. Talking Points on Eliminating Unnecessary Subsidies to Corporations and Broadening the Business Tax Base
- III. Summary of the President's Higher Education Initiatives Contained in the Budget
- IV. One Page Summary of the Higher Education Initiatives
- V. Highlights of the President's Medicare Reform Plan
- VI. One Page Summary of the President's Medicare Reform Package

**SUMMARY OF TAX CUTS
IN THE PRESIDENT'S FISCAL YEAR 1998 BUDGET**

The President's 1998 budget provides about \$100 billion of tax cuts (99.88 billion) through FY 2002: a child credit for middle-income families, tax cuts to encourage education and training, expanded IRAs, exclusion of a gain on the sale of a home, and tax incentives to boost investment in distressed areas and promote hiring of the economically disadvantaged.

I. MIDDLE-CLASS TAX CUTS

These proposals will help middle-class families pay the bills, raise their children, send them to college, upgrade their skills, and save for retirement.

- **Tax Credit for Dependent Children (\$46.7 billion)**
Provide a phased-in \$500 tax credit for dependent children, phased out for taxpayers with adjusted gross income between \$60,000 and \$75,000.

- **Education and Training Tax Incentive (\$38.6 billion)**
 - Provide **HOPE Scholarship tax credits** of up to \$1,500 per year, available for the first two years of post-secondary education, phased out for taxpayers with adjusted gross incomes between \$50,000 and \$70,000 (\$80,000 and \$100,000 joint). (\$18.6 billion)
 - Provide a phased-in **\$10,000 tax deduction** for post-secondary education and training, available to all families for tuition and fees for any college, graduate school or qualified lifelong learning, with the same phase-out ranges as for HOPE Scholarships. (\$17.6 billion)
 - Provide **income exclusion for forgiveness of certain student loans, including loans extended by educational institutions to their students where loan forgiveness is contingent on the student's working for a certain period of time in certain professions or for a broad class of employers.** (\$.03 billion)
 - Extend the **exclusion for employer-provided educational assistance** through December 21,2000 (currently expires mid-1997), reinstate exclusion for graduate courses, and provide **small businesses a ten percent income tax credit** for payments for education of employees. (\$2.4 billion)

- **Expand Individual Retirement Accounts (IRAs) (\$5.5 billion)**
Double, over time, the income limits on deductible IRAs, increasing them to \$70,000 (\$100,000 joint); expand penalty-free withdrawals to cover post-secondary education, unemployment expenses, and first-time home purchases; and add new "special" backloaded IRAs.

- **Exclusion of Gain on Sale of a Home (\$1.5 billion)**
Allow exclusion of \$500,000 (\$250,000 singles) of capital gains from selling a principal residence. The exclusion could be used every two years and would replace the current-law one-time exclusion of \$125,000 and the deferral of capital gains when buying a more expensive home. This change would exempt over 99 percent of home sales from capital gains taxes and would dramatically simplify taxes and record-keeping for over 60 million homeowners.

II. TAX INCENTIVES FOR DISTRESSED AREAS (\$2.4 billion)

- **"Brownfields" Initiative**

Allow immediate expensing of qualified environmental remediation costs, to encourage companies to clean up abandoned, contaminated industrial properties, known as "brownfields," in economically distressed rural and urban areas.

- **Incentives to Empower Communities**

To help stimulate revitalization of economically distressed urban and rural communities, authorize the designation of 20 additional Empowerment Zones and 80 additional Enterprise Communities, with new tax incentives, including the brownfields initiative, additional small business expensing, and new private activity bonds.

- **Community Development Financial Institution (CDFI) Tax Credit**

Provide \$100 million of credits to be allocated among equity investors in community development banks. The credit can be as much as 25 percent of the amount invested.

III. WELFARE-TO-WORK INITIATIVE (\$0.5 billion)

To encourage hiring long-term welfare recipients, provide a new welfare-to-work credit through September 30, 2000. It would allow employers a **50 percent credit on the first \$10,000 of annual wages** that they pay to long-term welfare recipients for up to two years. Also expand the Work Opportunity Tax-Credit to include able-bodied adults, ages 18-50, who are subject to the time limits for Food Stamps under the Administration's legislative proposal to amend last year's welfare reform law.

IV. SMALL BUSINESS AND FARM ESTATE TAX RELIEF (\$0.7 billion)

To address cash-flow problems that may arise upon the death of a farmer or small business owner, increase the amount of property eligible for a favorable interest rate on deferred estate tax from \$1 million to \$2.5 million, and eliminate distinctions based on form of ownership.

V. OTHER INITIATIVES

- Extend for one year expiring tax provisions (R&E credit, Work Opportunity Tax Credit, contributions of appreciated stock to private foundations, and orphan drug tax credit) (\$2.7 billion)
- Ensure that disabled persons are fairly treated when filing for tax refunds by modifying the statutes of limitations (\$0.05 billion)
- Provide District of Columbia tax incentives to encourage employment of D.C. residents and to revitalize distressed areas (\$0.26 billion)
- Provide a more efficient and effective tax incentive for the economic development of Puerto Rico (\$.417 billion)
- Allow FSC software benefits for computer software licenses (\$0.560 billion)

*All estimates are OMB estimates for the period FY 1997-2002

February 1, 1997

**ELIMINATING UNNECESSARY SUBSIDIES TO CORPORATIONS AND
BROADENING THE BUSINESS TAX BASE**

- **The President's budget, in addition to entitlement and discretionary savings, will propose approximately \$40 billion of business tax base broadeners, tax loophole closers and tax compliance measures for fiscal years 1997 to 2002.**
 - At a time when we are trying to balance the budget while protecting priorities like Medicare, Medicaid, education and the environment, the President believes we should also be closing loopholes and special interest provisions.

- **In contrast to others who talk about eliminating unnecessary subsidies in the tax system but provide no specifics, the President is making a series of specific and sensible proposals.**
 - "The Corporate Subsidy Reform Commission," as proposed in legislation sponsored by Senators McCain and Feingold, offers no specific recommendations in the bill.
 - The newly formed coalition, "Stop Corporate Welfare," which includes House Budget Committee Chairman John Kasich, did not propose to close any specific corporate tax loopholes.
 - Last year's Republican-passed Budget Resolution conference report did not reference specific loophole closers, even in report language.

- **The President's base broadeners, tax loophole closers and tax compliance measures include:**
 - Cutting corporate subsidies, for example, by repealing percentage depletion for non-fuel minerals mined on Federal lands leased at minuscule rents under the anachronistic 1872 mining laws.
 - Modernizing the tax code to keep up with changes in the financial markets, such as evolving strategies for manipulating debt and equity distinctions for tax advantage.
 - Preventing abuse by financial manipulations, such as, "shorting against the box" and the similar strategies such as equity swaps, that are designed to eliminate the risk of loss and opportunity for gain with respect to a security without realization of any gain for tax purposes.
 - Closing corporate loopholes, for example, by eliminating tax-free sales of subsidiaries through spinoffs, and by reforming inventory methods that understate income to reduce tax liability.

Note: The budget also proposes extension of various excise taxes (or their equivalent) dedicated to Trust Funds, which were allowed to lapse when no legislation was passed to extend them. These are not new revenue raisers in the same sense as the proposals described above. Because they were allowed to elapse, under the rules of the Budget Enforcement Act, they are technically scored as revenue increases. The principal extender in this category, the excise tax supporting the Airport and the Airways Trust Fund, was extended in the Republican-passed Balanced Budget Amendment.

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HOPE and Opportunity: Making college affordable for all Americans

More than ever, today's employers look for job applicants with more than a high school diploma. Since the success of the post-World War II GI Bill, the Federal Government has expanded college aid, making it possible for more Americans to attend college. But for too many, the financial strains are still severe. The President's HOPE and Opportunity plan ensures that these barriers to higher education continue to fall for all Americans.

What's *new* in the plan being announced today?

- ✓ Largest Pell Grant increase in 20 years – a funding boost of 25%.
- ✓ Nearly \$4 billion in new help for Older Students over five years.
- ✓ Student loan fees slashed and interest rates reduced.
- ✓ Community service loan forgiveness excluded from taxation.
- ✓ New details and changes in the HOPE Scholarship tax credit and the \$10,000 tax deduction.
- ✓ Extend tax benefits for educational assistance from employers, and provide new tax incentive for small businesses to provide assistance.

Pell Grant increase and expansion

- Largest increase in two decades: \$300 boost in the Pell Grant maximum, for a \$3,000 maximum award. Since FY 1996, the maximum award will increase \$530, or 21 percent.
- A 25 percent funding increase over last year – \$1.7 billion more than the FY 1997 appropriation.
- 3.6 million students now eligible will receive an increase of up to \$300. The increase will make 130,000 more moderate-income families eligible for the grant.
- Older student provision will make Pell Grants available to additional 218,000 low-income students generally aged 24 or over, at a cost of \$3.9 billion over five years.
- After these changes, the number of Pell Grant recipients will exceed 4 million.

Pell Grants are the foundation of student aid for low- and moderate-income families. Increasing the maximum award to \$3,000 provides more aid to currently eligible students, and makes an additional 130,000 students eligible for the grants. In addition, the budget would increase the eligibility of older, low-income students. With this change, any student from a low-income family can receive a Pell Grant, eliminating the need for the HOPE tuition tax credit to be refundable (i.e., available to those without tax liability). Poor

students – those who have little or no tax liability – benefit more from the Pell Grant program than they would from HOPE, because of the higher award level and its availability for all four years of undergraduate education.

Cut student loan fees and interest

- Borrower-paid loan fees cut in half for 4 million low- and middle-income students, and by a quarter for 2.5 million other loans to student and parent borrowers.
- \$2.6 billion in borrower savings over five years produced by the fee cut alone.
- Interest rate during in-school period cut for 2 million students.

Before 1993, borrowers lost up to 8 percent of their student loans in required fees before the money ever reached them. In 1993, the President's aggressive student loan reforms spurred a 50 percent cut in allowable fees that has already saved families nearly \$2 billion. The 1998 budget proposes – for both the Direct and guaranteed loan programs – to cut loan fees from 4 percent to just 2 percent on need-based Stafford loans, and to 3 percent on other loans for students and parents.

The Congressional Budget Office and other analysts have noted that lender costs during the in-school period – when students are not required to make payments on their loans – are very low. The budget reduces the interest rate during that period by one percentage point.

HOPE Scholarship tax credits

- Up to \$1,500 per-student tuition credit for course work beginning on or after July 1 of this year.
- Non-refundable.
- Credit can be claimed in 2 taxable years.
- Credit can be claimed for any students who have not finished 13th and 14th years of education.
- The tax credit is expected to help 4.2 million students (1998), and would save families \$18.6 billion from 1997-2002.

The tax credit is available for students enrolled on at least a half-time basis during the first two years of postsecondary education. The credit may be claimed in no more than 2 taxable years. To receive the credit for the second time, the student must have at least a B- grade point average in course work completed before that year. Federal grants (but not loans or work-study) would reduce the allowable tax credit. No credit would be available for any student convicted of a drug-related felony. Refundability was eliminated because the needs of the poorest students are better addressed in the Pell Grant program discussed above (the proposed changes in Pell Grants for older students, described above, cost the same as refundability would have cost over five years).

The credit would be phased out for taxpayers filing a joint return with adjusted gross income between \$80,000 and 100,000. For single and head-of-household returns, the credit would be phased out between \$50,000 and 70,000. (The phase-out ranges and the amount of the credit would be indexed).

Tax deduction for higher education and training

- \$10,000 maximum deduction.
- Available for job training and re-training, in addition to traditional higher education.
- Deduction is "above the line" – available even if the taxpayer does not itemize.
- Expected to help 8.1 million students (1998), and would save families \$17.6 billion in taxes between 1997-2002.

The deduction could be claimed for out-of-pocket tuition and fees paid for any student enrolled at least half-time in a degree or certificate program at an eligible school beyond high school, including graduate school. In addition, the deduction would be available for the cost of training – whether or not it leads to a degree – that helps the student, older worker, or job-seeker improve or acquire job skills. A student in the first two years of postsecondary education could choose either the credit or the deduction, but not both. The deduction phases in, beginning with a \$5,000 maximum per-family for course work beginning on or after July 1, 1997, and increasing to a \$10,000 maximum deduction beginning in 1999. The deduction would be phased out at the same income levels as the credit.

Tax-free Education Savings

- Families with incomes up to \$100,000 would be eligible for IRAs, and could make penalty-free withdrawals for higher education.
- Combined with tax deduction (above), the IRA savings for higher education for middle-income families would be never be taxed.

The President's budget would allow Individual Retirement Accounts to be used for postsecondary education expenses free from early withdrawal tax penalties, and would make over 20 million families eligible to make tax-deductible IRA contributions. Currently, if an individual (or spouse) already participates in an employer's retirement plan, eligibility is phased out for taxpayers filing a joint return with adjusted gross income between \$40,000 and \$50,000 (between \$25,000 and \$35,000 for single taxpayers). The proposal would expand the phase-out ranges for 1997 through 1999 to \$70,000 to \$90,000 for joint filers (\$45,000 to \$65,000 for single). Beginning in 2000, the phase-out range would match the ranges described for the higher education tax credit. The budget would also create a special IRA that could be used to save for education and other needs, subject to the same income limits.

Community Service: Work-Study and loan forgiveness

- Budget funds 1 million College Work-Study slots by the year 2000.
- Incentives to reach the goal of 100,000 work-study reading tutors by 1999.
- Tax-free loan cancellation for public service.

The College Work-Study program provides students with additional aid through subsidized jobs. The President has called on colleges to commit half of the increased funding since FY 1996, \$120 million for FY 1998, to supporting community service jobs. The Secretary of Education recently waived the institution's required portion of the awards for students that participate as reading tutors – part of America's Reading Challenge, helping to ensure that every child can read independently and well by the end of third grade. The budget's three percent increase over 1997 continues the President's commitment to raise the number of Work-Study recipients to a million by the year 2000, and 100,000 reading tutors by 1999.

Under current law, a charity or private educational institutions that forgives a loan as part of a program that enables graduates working in certain professions (such as rural medicine or teaching) to pay off their student loans through community service must report the loan

forgiveness as income to the graduate. The budget would exclude the loan forgiveness from income.

Presidential Honors Scholarships

- One-year, \$1,000 scholarships for at least 132,000 students constituting the top five-percent of all high school graduates in the country.
- The budget provides \$132 million in FY 1998.

The President proposes an achievement-based scholarship program, rewarding the best and the brightest of high school students. It would grant \$1,000 honors awards to the top five percent of graduating students in every secondary school in the Nation, making clear the Federal government's commitment to academic excellence.

Educational assistance from employers

- Extend tax exclusion for employer-provided education assistance (Section 127) through the year 2000, for both undergraduate and graduate education.
- Tax credit to encourage small businesses to offer educational assistance to employees.
- Benefit 1.7 million employees a year.

The current exclusion from an employee's income of up to \$5,250 per year of postsecondary educational assistance provided by an employer expires this year, and expired for graduate-level assistance last year. The President would extend the exclusion, and reinstate the graduate-level component, through the year 2000. In addition, for 1998-2000, small businesses would be given a new incentive to provide educational assistance to their employees through a ten-percent tax credit for amounts paid under an employer-provided educational assistance program for education provided by a third party.

HIGHLIGHTS OF THE PRESIDENT'S MEDICARE REFORM PACKAGE

Medicare Savings Approximately \$100 billion over 5 years; \$138 billion over 6 years.

Medicare Trust Fund Extends the solvency of the Trust Fund to 2007 through a combination of scorable savings and programmatic and structural changes.

Beneficiary Provisions Extends current law that sets Part B premium at 25% of program costs. This policy achieves \$10 billion in savings over 5 years. The Part B premium would go below this percentage without this change after 1998; the expenditures associated with the reallocation of some home health expenditures are excluded from this calculation.

Invests in preventive health care to improve seniors' health status and reduce the incidence and costs of disease. The plan covers colorectal screening, diabetics management, and annual mammograms without copayments, and it increases reimbursement rates for certain immunizations to ensure that seniors are protected from pneumonia, influenza, and hepatitis.

Establishes a new Alzheimer's respite benefit starting in 1998 to assist families of Medicare beneficiaries with Alzheimer's and related diseases.

Buys down excessive outpatient copayments to the traditional 20% level. Because of a flaw in reimbursement methodology, beneficiaries now in effect contribute a 46% copayment. Our policy will prevent further increases in copayments and reduce the copayment to 20% by 2007.

Adds Medigap protections (such as new open enrollment requirements and prohibitions against the use of pre-existing condition exclusions) to increase the security of Medicare beneficiaries who wish to opt for managed care but fear they will be unable to access the Medigap policy of their choice if they decide to return to the fee-for-service plan. (This provision is consistent with bipartisan legislation pending before Congress.)

Provides new private plan choices (through new PPO and Provider Service Organization choices) for beneficiaries.

Provider Impact

Hospitals

Through a series of traditional savings (reductions in hospital updates, capital payments, etc.), achieves about \$33 billion in savings over 5 years.

Establishes new provider service organization (PSOs), which will allow hospitals (and other providers) to establish their own health care plans to compete with current Medicare HMOs.

Establishes a new pool of funding, about \$11 billion over 5 years for direct payment to academic health centers to ensure that academic health centers are compensated for teaching costs. This is funded by carving out medical education and disproportionate share (DSH) payments from the current Medicare HMO reimbursement formula.

Managed Care

Through a series of policy changes, the plan will address the flaws in Medicare's current payment methodology for managed care. Specifically the reforms will create a national floor to better assure that managed care products can be offered in low payment areas, which are predominantly rural communities. In addition, the proposal includes a blended payment methodology, which combined with the national minimum floor, will dramatically reduce geographical variations in current payment rates. **Medicare will reduce reimbursement to managed care plans by approximately \$34 billion over 5 years.** Savings will come from three sources:

(1) Because HMO payments are updated based on projections of national Medicare per-capita growth, when the traditional fee-for-service side of the program is reduced, HMO payments are reduced. The savings from this is \$18 billion over five years;

(2) The elimination of the medical education and DSH payments from the HMO reimbursement formula. (these funds will be paid directly to academic health centers). Savings from this proposal are \$10 billion over five years; and

(3) A phased-in reduction in HMO payment rates from the current 95% of fee-for-service payments to 90%. A number of recent studies have validated earlier evidence that Medicare significantly overcompensates HMOs. The reduction does not start until 2000 and it accounts for a relatively modest \$6 billion in savings over 5 years.

Home Health Care

Saves about \$14 billion over 5 years through the transition to and establishment of a new prospective payment system.

**Home Health Expenditure
Reallocation**

Home health care has become one of the fastest growing components of the Medicare program, growing at double digit rates. Originally designed as a post-acute care service under Part A for beneficiaries who had been hospitalized, home health care has increasingly become a chronic care benefit not linked to hospitalization. The President's proposal restores the original split of home health care payments between Parts A and B of Medicare. The first 100 home health visits following a 3-day hospitalization would be reimbursed by Part A. All other visits -- including those not following a hospitalization -- would be reimbursed by Part B.

The restoration of the original policy will not count toward the \$100 billion in savings in the President's plan. The policy avoids the need for excessive reductions in payments to hospitals, physicians, HMOs, and other health care providers while helping to extend the solvency of the Part A Trust Fund.

See additional provisions under Fraud and Abuse which save \$1.3 billion over five years.

Physicians

Saves about \$7 billion over 5 years through a modification of physician updates. This reduction is relatively small because Medicare has been relatively effective in constraining growth in reimbursement to physicians.

Skilled Nursing Facilities

Saves about \$7 billion over 5 years through the establishment of a prospective payment system.

Fraud and Abuse

Saves about \$9 billion over 5 years through a series of provisions to combat fraud and abuse in areas such as home health care, by requiring insurers to provide information about insurance coverage of beneficiaries, and by repealing the provisions Congress enacted last year that weaken fraud and abuse enforcement.

Structural Reform

Brings the Medicare program into the 21st century by:

- (1) Establishing new private health plan options** (such as PPOs and Provider Service Networks) for the program;
- (2) Establishing annual open enrollment** for all Medicare plans within independent third-party consumer consulting.
- (3) Establishing market-oriented purchasing for Medicare** including the new prospective payment systems for home health care, nursing home care, and outpatient hospital services, as well as competitive bidding authority and the use of centers of excellence to improve quality and cut back on costs;
- (4) Adding new Medigap protections to make it possible for beneficiaries to switch back from a managed care plan to traditional Medicare without being underwritten by insurers for private supplemental insurance coverage.** This should encourage more beneficiaries to opt for managed care because it addresses the fear that such a choice would lock them in forever.

Rural Health Care

The plan will have a very strong package of rural health care initiatives, including continuation and improvement of sole community hospital, Medicare dependent hospital, and rural referral center protections. the expansion of the Rural Primary Care Hospital program that allow for designation of and reimbursement to facilities that are not full-service hospitals, and the modification of managed care payments to ensure they are adequate for rural settings. The rural hospital investment alone is \$1 billion over 5 years.

Medicare for Workers' with Disabilities

The President's budget authorizes a demonstration which enables SSDI beneficiaries to return to work without losing their health care coverage. Under the demonstration, certain SSDI beneficiaries who return to work would be able to maintain their Part A coverage.

**THE PRESIDENT'S LATEST MEDICARE PROPOSAL
DEMONSTRATES HIS COMMITMENT TO REAL REFORM AND
MEETS THE REPUBLICANS HALFWAY.**

	Republican 1996 Proposal¹	President's Current Proposal²	President's 1996 Proposal³
6-YEAR	\$158 Billion	\$138 Billion	\$116 Billion

¹ 1996 Proposal (April 1996 baseline). Six-year period is FY 1997-FY 2002. (Medicare savings stream as reported in the Senate Budget Resolution Report, 5/13/96).

² HCFA Actuaries' Estimates. Six-year period is FY 1998-FY 2003. **The additional savings come from a range of policy changes, but the most notable increase in savings comes from managed care and home health care.**

³ 1996 Proposal (April 1996 baseline). Six-year period is FY 1997-FY2002. ("CBO's Estimates of the President's Budgetary Proposals" in "The Economic & Budget Outlook: FY 1997-2002").

THE PRESIDENT'S MEDICARE REFORM PACKAGE

President Clinton is working towards a balanced budget that balances our values and protects our priorities. The President has outlined a Medicare reform package that meets our fundamental health care goals and needs. It achieves \$100 billion in real scorable savings over 5 years, places no undue burdens on beneficiaries, modernizes and improves the program, and extends the life of the Medicare Trust Fund to 2007. This plan meets Republicans halfway -- and they have responded in a constructive and positive manner. The President looks forward to working with both Congressional Democrats and Republicans in a bipartisan process to protect Medicare.

The President's plan reforms and improves Medicare by:

- **Extending the life of the Medicare Trust Fund to 2007.**
- **Bringing the program into the 21st century by:**
 - ⇒ *Providing more choice by establishing new private health plan options.*
 - ⇒ *Establishing market-oriented purchasing for Medicare including new prospective payment systems and competitive bidding authority and centers of excellence to improve quality and cut back on costs.*
- **Adding Medigap protections to increase the security of Medicare beneficiaries.**

The President's plan explicitly:

- **Saves \$34 billion by reducing reimbursement to managed care through a phased in reduction in HMO payment rates and an indirect reduction in HMO payments associated with the traditional fee-for-service cuts.**
- **Saves \$33 billion in hospital expenditures through reductions in hospital updates, capital payments etc.**
- **Saves about \$14 billion over 5 years through the transition to and establishment of a new prospective payment system and other programmatic changes in reimbursement to home health care.**
- **Saves about \$7 billion over 5 years through the transition to and establishment of a new prospective payment system and other programmatic changes in reimbursement to nursing home facilities.**
- **Saves about \$7 billion over 5 years through a modification of physician updates.**
- **Saves about \$9 billion over 5 years through new provisions to combat fraud and abuse.**
- **Saves about \$10 billion over 5 years by extending current law that sets the Part B premium at 25% of program costs.**
- **Invests \$15 billion over 5 years in preventive health care to improve seniors' health status, in establishing a new Alzheimer's respite benefit starting in 1998 and in buying down excessive outpatient copayments to the traditional 20% level.**

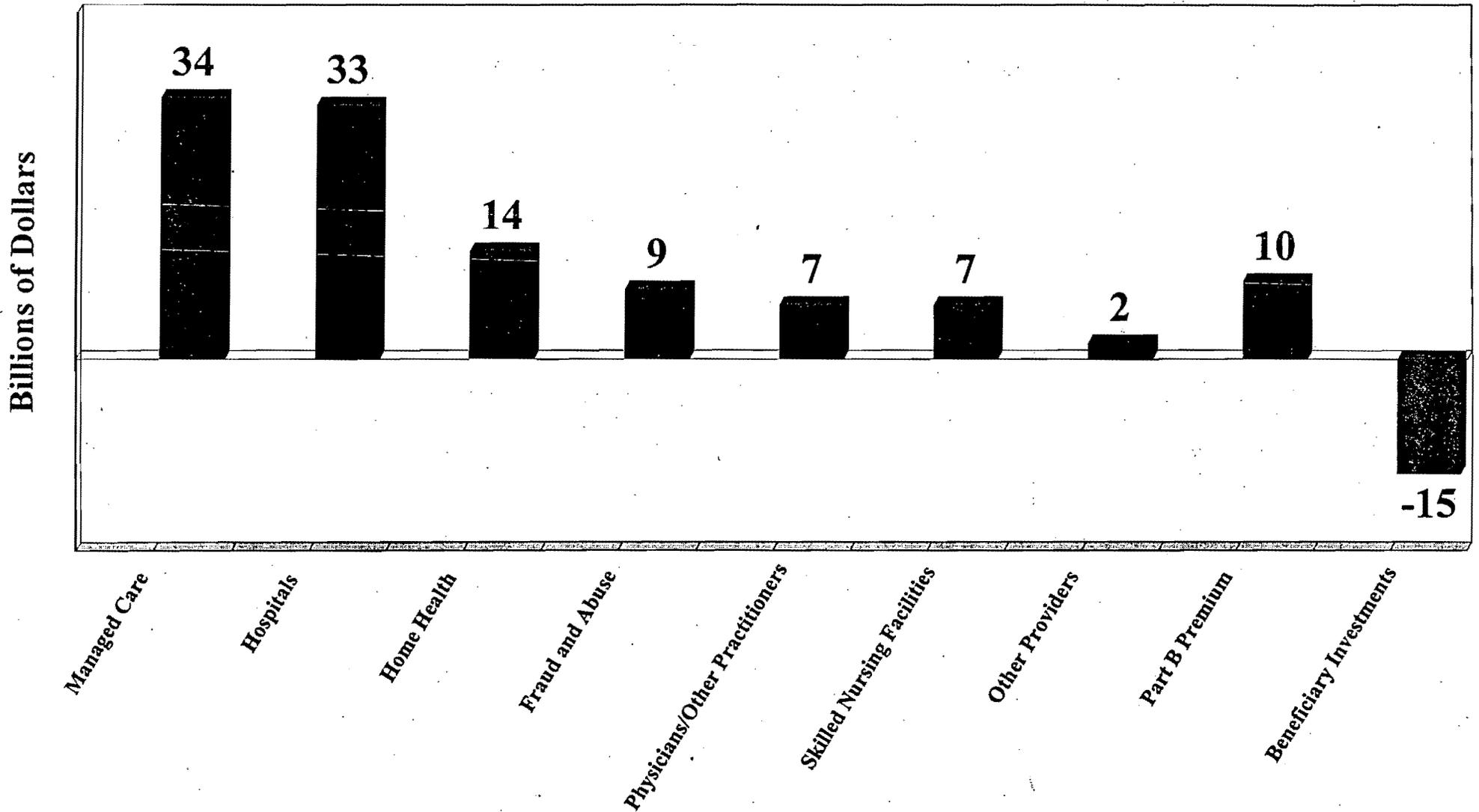
President's FY 1998 Budget:

Medicare Savings and Investment Proposals

Background Materials

February, 1997

The President's FY 1998 Budget Medicare Savings and Investment Proposals FY 1998 - FY 2002, Total Savings = \$100 billion



The President's FY 1998 Budget: Medicare Savings and Investment Proposals

(FY, \$'s in billions, positive numbers are savings, negative numbers are costs, sums may not add due to rounding)

	1998	1999	2000	2001	2002	98-02
PART A PROPOSALS						
Managed Care	1.2	3.2	6.5	8.3	9.9	29.2
Hospitals	2.7	3.3	4.6	5.9	8.0	24.5
Reduce Hospital PPS Update	0.7	1.4	2.2	3.1	4.0	11.4
Extend PPS Capital Reduction	1.2	1.2	1.3	1.3	1.4	6.4
Reduce PPS-Exempt Update w/ Rebasing	0.3	0.4	0.6	0.8	1.0	3.2
Reduce PPS-Exempt Capital Payments	0.1	0.2	0.2	0.2	0.2	0.8
Reform Base Puerto Rico Payment	0.0	0.0	0.0	0.0	0.0	-0.1
Moratorium on Long-Term Care Hospitals	0.0	0.0	0.1	0.1	0.1	0.4
Expand Centers of Excellence	0.0	0.1	0.1	0.1	0.1	0.2
Lower IME	0.2	0.4	0.7	0.9	2.0	4.2
GME Reform	0.2	0.4	0.7	0.9	1.2	3.4
Eliminate Add-Ons for Outliers	0.5	0.5	0.5	0.6	0.6	2.6
PPS Redefined Discharges	0.7	0.8	0.8	0.9	1.0	4.1
SCH Rebasing	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6
RPCH expansion	0.0	0.0	0.0	0.0	0.0	-0.1
Medicare dependent hospitals	0.0	0.0	-0.1	0.0	0.0	-0.1
Remove GME, IME, and DSH from AAPCC	-1.1	-1.9	-2.1	-2.6	-3.0	-10.7
Interactions Among Hospital Proposals	0.0	0.0	-0.1	-0.2	-0.4	-0.7
Home Health	1.1	1.6	3.3	3.7	4.2	13.7
HH Freeze Extension	0.1	0.3	0.3	0.3	0.3	1.3
HH Interim System	0.9	1.3	1.5	1.8	2.1	7.7
HH PPS	0.0	0.0	1.5	1.6	1.7	4.7
Fraud and Abuse	0.1	0.9	2.0	1.5	1.7	6.2
Clarify and Enhance MSP Authority	0.1	0.2	0.2	0.3	0.3	1.0
Extend Expiring MSP Provisions	0.0	0.7	0.9	1.1	1.3	4.0
Repeal Objectionable Provisions	0.0	0.0	0.1	0.1	0.1	0.2
Pay Home Health on Location of Service	0.1	0.1	0.1	0.1	0.1	0.4
Require SNF Consolidated Billing	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3
Eliminate Home Health PIP	0.0	0.0	0.8	0.1	0.1	1.0
Skilled Nursing Facilities	0.0	1.0	1.8	2.1	2.1	7.1
Extend Savings from OBRA 93 Freeze	0.0	0.2	0.3	0.4	0.4	1.3
Establish SNF PPS	0.0	0.9	1.5	1.7	1.7	5.8
Beneficiary Investments	-0.3	-0.4	-0.6	-0.7	-0.8	-2.7
Colorectal Screening	-0.1	-0.2	-0.2	-0.3	-0.3	-1.1
HI Premium Free Working Disabled	0.0	0.0	0.0	0.0	0.0	-0.1
Part A Premium Offset	-0.2	-0.2	-0.3	-0.4	-0.4	-1.5
TOTAL PART A	4.8	9.6	17.7	20.8	25.0	77.9

The President's FY 1998 Budget: Medicare Savings and Investment Proposals

(FY, \$'s in billions, positive numbers are savings, negative numbers are costs, sums may not add due to rounding)

	1998	1999	2000	2001	2002	98-02
PART B PROPOSALS						
Managed Care	-0.1	0.2	1.1	1.5	1.8	4.5
Hospitals	0.0	1.8	1.8	2.1	2.5	8.2
Outpatient PPS	0.0	1.8	1.8	2.1	2.5	8.1
Outpatient GME Reform	0.0	0.0	0.0	0.0	0.0	0.0
Expand Centers of Excellence	0.0	0.0	0.0	0.0	0.0	0.1
Physicians and Other Practitioners	0.2	0.8	1.6	2.1	2.6	7.2
Single Conversion Factor, Reform Update	0.1	0.7	1.2	1.5	1.8	5.3
Single Fee For Surgery	0.0	0.1	0.1	0.1	0.1	0.4
Incentives for In-hospital MD Services	0.0	0.0	0.3	0.5	0.7	1.5
Direct Payment to PA, NP, CNS	-0.1	-0.1	-0.1	-0.1	-0.2	-0.6
Pay Acquisition Cost for Drugs	0.1	0.2	0.2	0.2	0.2	0.8
Increase Access to Chiropractors	0.0	0.0	0.0	-0.1	-0.1	-0.2
Interaction among Physician Proposals	0.0	0.0	0.0	0.0	0.0	-0.1
Fraud and Abuse	0.1	0.5	0.6	0.7	0.9	2.9
Clarify and Enhance MSP Authority	0.1	0.1	0.1	0.2	0.2	0.6
Expiring MSP Provisions	0.0	0.3	0.4	0.5	0.6	1.9
Require SNF Consolidated Billing	0.1	0.1	0.1	0.1	0.1	0.3
Repeal Objectionable Provisions	0.0	0.0	0.0	0.0	0.0	0.1
Other Providers	0.0	0.0	0.1	0.6	1.0	1.8
Competitive Bidding	0.0	0.0	0.0	0.5	0.8	1.4
Reduce ASC update	0.0	0.0	0.1	0.1	0.1	0.3
Reform Lab Payments	0.0	0.0	0.0	0.0	0.0	0.1
Part B Premium	0.0	0.7	1.8	3.0	4.7	10.2
Extend 25% Premium Beyond 1998	0.0	1.0	2.5	4.1	5.9	13.6
Premium Offset	0.0	-0.3	-0.7	-1.1	-1.2	-3.4
Beneficiary Investments	-0.8	-2.2	-2.4	-3.1	-3.9	-12.4
Waive Mammography Costsharing	0.0	-0.1	-0.1	-0.1	-0.1	-0.3
Annual Mammogram	0.0	-0.1	-0.1	-0.1	-0.1	-0.4
Respite Care	-0.4	-0.4	-0.4	-0.4	-0.4	-1.8
Colorectal Screening	0.0	-0.1	-0.1	-0.2	-0.2	-0.7
Diabetic Screening	-0.2	-0.3	-0.3	-0.3	-0.3	-1.5
Blood Glucose Monitor Strips	0.0	0.0	0.0	0.0	0.0	0.1
HI Premium Free Working Disabled	0.0	0.0	0.0	0.0	0.0	0.0
Preventive Injections	0.0	-0.1	-0.1	-0.1	-0.1	-0.4
Actuarially Determined Premium Surcharge	-0.1	-0.2	-0.2	-0.2	-0.2	-0.8
Appropriate Outpatient Coinsurance	0.0	-1.1	-1.3	-1.8	-2.6	-6.8
TOTAL PART B	-0.5	1.8	4.5	7.0	9.5	22.3
NET SAVINGS FROM TOTAL PACKAGE	4.3	11.4	22.2	27.8	34.6	100.2

THE PRESIDENT'S FY 1998 BUDGET MEDICARE SAVINGS AND INVESTMENT PROPOSALS

The President's plan achieves \$100 billion in net Medicare savings over five years by making a variety of reforms to the program and extends the life of the Part A Trust Fund to 2007.

MANAGED CARE

The President's plan includes \$34 billion in managed care savings over five years. In addition to the savings components of the policy, there are several other proposals that address inequities in the current payment methodology and introduce important structural changes in the administration of the program.

- Address the Wide Geographic Disparity in Managed Care Payment Rates. Certain areas of the country receive much higher managed care payment rates than others. This proposal would raise payment levels for current low-payment counties, potentially encouraging managed care plans to enter new markets and thus providing more beneficiaries with a choice of plans. It also would limit payments for counties whose rates have been inflated by high service utilization in the fee-for-service sector. **This proposal is budget neutral**; i.e., by limiting payments for certain higher-payment areas, funds can be redirected to lower-payment areas.
- Indirect Savings from Fee-For-Service Reductions. The majority of managed care savings, **about \$18 billion over five years, are an indirect effect of reductions in fee-for-service spending.** Because increases in managed care payments are based upon the growth in fee-for-service payments, reductions in fee-for-service payments also produce managed care savings. In the last two years Medicare managed care payments have increased by about 13 percent, while private sector managed care payments have remained relatively flat.
- Carve Out GME, IME and DSH Payments From Managed Care Rates. These payments would be distributed directly to teaching and disproportionate share hospitals for managed care enrollees and to academic medical centers and managed care plans that run their own residency programs. **This proposal reduces payments by about \$10 billion over five years.**
- Reduce Medicare Reimbursement to Managed Care Plans From Its Current Rate of 95 Percent of Fee-For-Service Rates to 90 Percent Beginning in 2000. This proposal responds to substantial evidence that Medicare overpays managed care plans as a result of "favorable selection." The delay in the effective date of this provision is intended to

provide health plans the opportunity to prepare for the new methodology. **This proposal achieves about \$6 billion in savings over five years.**

- **Consumer Information, Medigap Reforms and Increased Choice.** Because many beneficiaries are unaware of their current options and would like greater choice among plans, the Administration proposes to increase managed care options, improve beneficiary awareness of the options, and improve access to Medigap coverage. First, the budget proposes to allow provider-sponsored organizations and preferred provider organizations that meet certain standards to participate as Medicare managed care plans. Second, the budget proposes to distribute comparative information on plan options to beneficiaries, ensuring that all are aware of the advantages and additional benefits that many managed care plans offer. Third, the budget guarantees that beneficiaries have the opportunity to enroll in community-rated Medigap plans annually without being subject to pre-existing condition exclusions. This provision would ensure that beneficiaries who try managed care, and are dissatisfied, can return to the Medigap plan of their choice. These policies are expected to increase enrollment in Medicare managed care plans.

HOSPITALS

The President's plan achieves \$33 billion in hospital savings over five years.

- **Reduce Annual Updates to Hospitals.** This policy would reduce the annual update by 1.0 percent for PPS hospitals for each year from 1998-2002 (achieving about \$11 billion in savings over five years). Similarly, the market basket for hospitals that are exempt from Medicare's hospital prospective payment system (i.e., psychiatric, rehabilitation, long-term care, cancer, and children's hospitals) would be reduced by 1.5 percentage points for each year from 1998-2002 (achieving about \$3 billion in savings over five years). The larger reduction in the PPS-exempt update is needed to bring the projected double-digit growth in payments to PPS-exempt facilities under control.

Under current law, inpatient hospital prospective payment rates are updated annually by a "market basket index" that reflects inflation in the prices of operating an inpatient facility. An update of less than the full market basket is given to reflect anticipated productivity gains and provide an incentive for hospitals to increase efficiency. For 1998, a hospital paid under the prospective payment system would receive about a 1.8 percent increase rather than the projected increase in the market basket of 2.8 percent.

- **Reduce Hospital Capital Payments.** Hospitals receive payments for their capital-related costs (e.g., construction, maintenance) based on the number of Medicare patients they treat. This proposal would reduce the 1998 hospital capital payment rate by 15.7 percent. In effect, this proposal permanently captures the savings from the OBRA 1990 capital provision, which limited payments for capital under PPS to 90 percent of what they

would have been under a reasonable cost system. **This proposal achieves about \$6 billion in savings over five years.**

In addition, this proposal would pay 85 percent of capital costs for PPS-exempt hospitals and units for FY 1998-2002, **resulting in about \$0.8 billion in savings over five years.**

- **Redefine Hospital "Transfer."** Currently, hospitals that move patients to PPS-exempt facilities and SNFs "discharge" the patient and receive a full DRG payment. This policy overpays hospitals and contributes to higher post-acute expenditure growth rates because these sites end up caring for more acutely ill patients. Under this proposal, moving a patient would be considered a hospital "transfer" rather than a discharge and payment would be on a per diem basis, not the DRG. **This proposal achieves about \$4 billion in savings over five years.**
- **Rural Health Provisions.** The President's plan invests about \$0.8 billion over five years to safeguard access to health care for rural beneficiaries. It: (1) extends the Rural Referral Center program; (2) improves the Sole Community Hospital program; (3) expands the Rural Primary Care Hospital program; and (4) extends the Medicare Dependent Hospitals program.
- **Give Hospitals Equal Subsidies for Teaching and "Disproportionate Share Hospital" (DSH) Costs for Medicare Fee-for-Service (FFS) and Managed Care Beneficiaries.** This proposal would give teaching and DSH hospitals additional payments, outside of their negotiated rates, when they treat Medicare beneficiaries in managed care plans. Currently, Medicare gives special payment adjustments to hospitals that run graduate medical education programs and/or serve a disproportionate share of low-income persons. These subsidies are only available when a hospital treats a Medicare FFS beneficiary. The President's plan would redirect the money for teaching and DSH that is being removed from managed care payments and pay it directly to eligible hospitals that provide services to Medicare managed care enrollees. Moreover, Medicare managed care plans that run their own teaching programs would also be eligible for payments to cover teaching costs. **This proposal returns about \$11 billion over five years to hospitals and eligible Medicare managed care plans.**
- **Graduate Medical Education Payments.** Medicare pays teaching hospitals for a share of the direct and indirect costs they incur in providing graduate medical education. Direct graduate medical education (GME) payments are based on a hospital's per resident costs (i.e., resident salaries and fringe benefits, overhead costs) and the number of full-time equivalent residents the hospital employs. The indirect costs are reimbursed through the indirect medical education (IME) adjustment to Medicare's hospital payments. **The graduate medical education proposals save about \$8 billion over five years.** These proposals would make the following changes in Medicare's graduate medical education payments:

- Graduate Medical Education Reform. This proposal actually contains three individual proposals, including two program expansions. The three proposals would: (1) cap the total number and the number of non-primary care residency positions reimbursed under Medicare at the current level; (2) count work in non-hospital settings for IME; and (3) allow GME payments to non-hospitals (e.g., Federally Qualified Health Centers) for primary care residents in those settings, when a hospital is not paying for the resident's salary in that setting. Most experts agree that the current GME and IME payment methodologies are flawed because they provide incentives to hospitals to increase their numbers of residents and to focus on specialty training at the expense of primary care training. This proposal is designed to slow the growth in Medicare spending on graduate medical education while encouraging more primary care training.

- Reduce IME Adjustment to 5.5 Percent. Through the IME adjustment, Medicare recognizes the higher indirect costs that teaching hospitals incur in running a teaching program (e.g., additional tests and procedures that residents may order as part of their training). Currently, the IME adjustment is based on a teaching hospital's ratio of interns and residents to beds (IRB), with payments increasing by about 7.7 percent for each 10 percent increase in a hospital's IRB. ProPAC recommends initially reducing the adjustment to 7 percent. However, ProPAC's research indicates that an IME adjustment of 4.1 percent corresponds more closely to the actual relationship between teaching intensity and costs. This proposal would reduce the IME adjustment to 7.4 percent in FY 1998, 7.1 percent in FY 1999, 6.8 percent in FY 2000, 6.6 percent in FY 2001, and 5.5 percent in FY 2002 and thereafter.

- Hospital Outpatient Departments (OPDs). Spending for OPD services is projected to nearly double between FY 1997 and FY 2002, from \$18 billion to \$31 billion. These services are still paid in part on the basis of a hospital's reported costs. The President's plan would move to a prospective payment system for these services effective January 1, 1999. Rates would initially be established so that total payments to hospitals for OPD services would be equal to projected FY 1999 hospital revenue (made up of Medicare's payments and beneficiary coinsurance payments), less savings from eliminating a flaw in the current payment methodology and assuming extension of certain policies set to expire at the end of 1998. **These proposals achieve about \$8 billion in savings over five years.**

- Expand "Centers of Excellence" Demonstration. Currently, HCFA is conducting a demonstration that pays 10 facilities, considered "centers of excellence," a flat fee to provide cataract or coronary artery bypass graft (CABG) surgery. The facilities were selected on the basis of their outstanding experience, outcomes, and efficiency in performing these procedures. This proposal would expand centers of excellence demonstrations to all urban areas by allowing Medicare to pay select facilities a single

rate for all services associated with CABG surgery or other heart procedures, knee surgery, hip replacement surgery, and other procedures that the HHS Secretary determines appropriate. This approach gives facilities incentives to provide high quality care more efficiently. Beneficiaries would not be required to receive services at these centers. **This proposal achieves about \$0.3 billion in savings over five years.**

• Other Proposals that Achieve Net Savings of about \$3 billion over five years.

- Make new long-term care hospitals subject to the prospective payment system.
- Eliminate increased IME and DSH payments that are attributable to so-called "outlier payments," but allow hospitals to count IME and DSH as part of costs that trigger outlier payments, effective FY 1998.
- Adjust the Puerto Rico payment rate to more appropriately reflect the costs of providing hospital care.

HOME HEALTH AGENCIES

The President's plan achieves about \$14 billion in home health savings over five years.

Home health care is one of the fastest growing areas of Medicare expenditures, with a projected average annual growth rate of 10.6 percent over the period FY 1997-2002. This high growth is driven primarily by increased volume. The average number of home health visits per user increased by over 40 percent between FY 1992 and FY 1997, rising from 52 visits per user to 74 visits per user. The average payment per visit has also increased, rising from \$57 per visit in FY 1992 to an estimated \$68 per visit by FY 1997. There is widespread consensus that the high rate of growth in home health expenditures needs to be addressed. These proposals would reform the home health payment methodology by making the following changes:

- Reform Home Health Payment. Medicare reimburses home health agencies on a cost basis, subject to limits. However, Medicare's retrospective reimbursement rates often contribute to increased expenditures by failing to control volume. This proposal would constrain growth in expenditures through lower cost limits over the short run and implement a prospective payment system (PPS) for an appropriate unit of service for home health in 1999. Budget-neutral rates under the PPS would be calculated after reducing expenditures that exist on the last day prior to implementation by 15 percent.

Prior to PPS, this proposal would implement an interim payment system to help reduce home health costs and control volume. Beginning in FY 1998, home health agencies would be paid the lesser of: (1) the actual costs (defined as Medicare allowable costs paid on a reasonable cost basis); (2) the per visit cost limits (which would be based on 105 percent of national median costs); or (3) a new agency-specific per beneficiary annual limit calculated from 1994 reasonable costs.

- Reallocate Financing of Part of the Home Health Benefit to Part B. This proposal divides the financing of the Medicare home health benefit between Part A and Part B -- without imposing any additional beneficiary cost sharing. Under this proposal, effective in FY 1998, the first 100 visits following a three-day hospital stay would be reimbursed under Part A. All other visits, including those not following hospitalization, would be reimbursed under Part B. (Part B visits would not be subject to the Part B coinsurance or deductible; this shift also would not affect the Part B premium.) By re-creating a post-hospital home health benefit under Part A, this proposal recognizes that Part A covers services associated with inpatient hospitalization and that Part B finances the remaining home health services. Re-allocating the home health benefit in this way also extends the solvency of the Part A Trust Fund.
- Extend Savings from OBRA 1993 Home Health Cost Limits Freeze. Medicare pays for covered home health services on a cost basis, subject to limits that are updated annually. OBRA 1993 eliminated the update for the home health cost limits from July 1, 1994 to July 1, 1996. Although this proposal would not extend the freeze, future home health payments would be decreased by an amount necessary to recapture these savings as though the freeze had been extended.

FRAUD AND ABUSE

The President's plan achieves about \$9 billion in fraud and abuse savings over five years.

- Medicare as Secondary Payer (MSP). Some Medicare beneficiaries have health coverage through an employer group health plan, workers' compensation, or automobile and liability insurance. In these cases, Medicare pays after a beneficiary's primary insurer, subject to certain restrictions and conditions. The MSP provisions in the President's plan permanently extends three expiring MSP provisions, requires a beneficiary's other insurance plan to tell Medicare when that beneficiary is covered and clarifies Medicare's authority to recover certain overpayments. These provisions save about \$8 billion over five years.
- Close Payment Loopholes. The President's plan proposes to close a number of "payment loopholes" that lead to wasteful and abusive spending.
 - Require Consolidated Billing for SNFs, Beginning in FY 1998. The HHS Office of Inspector General and others have reported that some Part B suppliers bill Medicare for supplies that were never delivered to nursing home residents. This proposal would require SNFs to bill Medicare for almost all services their residents receive, prohibiting payment to any entity other than SNFs for services or supplies furnished to Medicare-covered beneficiaries. This proposal will reduce double billing for some supplies and services and reduce beneficiary Part

B copayments for services covered under Part A. **These two proposals would cost about \$0.04 billion over five years.**

-- Base Home Health Payments on Location of Service Delivery. Home health agencies (HHAs) are often established with a home office in an urban area and branches in rural areas. When HHAs bill Medicare, payment is based on the higher wage rate for the urban area, even though the service delivery occurred in a rural area. Under this proposal, payments would be based on the location where the services are *rendered*, not where the services are *billed*, beginning January 1, 1998. **This proposal achieves about \$0.4 billion in savings over five years.**

-- Eliminate Periodic Interim Payments (PIP) for Home Health. PIP was established to help simplify cash flow for new home health providers by paying them a set amount on a bi-weekly basis. Then, at the end of the year, PIP is reconciled with actual expenditures. But, with about 100 new HHAs joining Medicare each month, access to home health care is no longer a problem, and new providers no longer need PIP to encourage them to participate in Medicare. Further, the HHS Office of Inspector General has found that Medicare tends to overpay providers who receive PIP and has a hard time recovering the money. This proposal would eliminate PIP for home health agencies simultaneous with PPS implementation in 1999 and **achieves about \$1 billion in savings over five years.**

• Repeal Objectionable Fraud and Abuse Laws. The President's plan proposes to repeal current law provisions enacted as part of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) that weaken fraud and abuse enforcement efforts. **Repealing these objectionable provisions achieves about \$0.3 billion in savings over five years.**

-- Repeal the Managed Care Exception to the Medicare and Medicaid Anti-kickback Statute. HIPAA included an exception to the Medicare and Medicaid anti-kickback statute for risk sharing arrangements (i.e., managed care plans). The HHS IG believes that this exception threatens the integrity of the Medicare program because it could allow "sham" risk sharing arrangements to meet the exception and thereby offer kickbacks for referrals.

-- Eliminate Advisory Opinions. HIPAA requires HHS and the Department of Justice (DoJ) to issue advisory opinions to providers on whether a proposed business venture violates the Medicare and Medicaid anti-kickback statute. We believe this process hinders the ability of the HHS IG and DoJ to prosecute providers who have obtained advisory opinions and who actually end up violating the anti-kickback statute (e.g., providers might obtain an advisory opinion under false pretext and then hide behind it to defraud the Medicare program).

- Reinstate Provider Requirement for Reasonable Diligence. HIPAA changed the standard that prosecutors must meet to enforce a Medicare or Medicaid civil monetary penalty (CMP). This provision makes it more difficult to impose a CMP in the Medicare program by increasing the government's burden of proof in CMP cases. The provision leads to costs because anticipated CMP recoveries assumed in the baseline will not be achieved in certain cases where the government cannot meet the new burden of proof.

PHYSICIANS AND OTHER PRACTITIONERS

The President's plan achieves about \$7 billion in net savings over five years from physicians and other practitioners.

- Establish Single Conversion Factor and Reform Method for Updating Physician Fees. When Medicare implemented physician payment reform in 1992, there was one category of physicians and one annual fee update. Congress has since created three categories of services, and each category has its own standard payment amount and annual fee update. In 1997, the standard payment amount is \$35.77 for primary care services, \$40.96 for surgical services, and \$33.85 for all other services. The Physician Payment Review Commission (PPRC) has recommended that three different standard payment amounts -- and the statutory spending target and update formulas that created them -- are inconsistent with the basic principles of the 1992 physician payment reforms.

This proposal would implement several changes consistent with the PPRC's recommendations to improve the physician payment system. First, a single standard payment amount (or "conversion factor") would go into effect on January 1, 1998. Second, the 1998 single conversion factor will be equal to the 1997 conversion factor for primary care services, updated for 1998 by a single, average fee update. Third, the formula that is used to set spending growth targets would be changed to a "sustainable growth rate" based on real GDP per capita growth plus one percentage point. The sustainable growth rate would begin affecting updates to the single conversion factor beginning in 1999. Fourth, a ceiling of 3 percentage points above medical inflation would be put on annual fee increases, and the floor on annual fee decreases would be increased from 5 percentage points to 8.25 percentage points. **This proposal achieves about \$5 billion in savings over five years.**

- Make Single Payment for Surgery. Under certain conditions, Medicare will make an extra payment for each physician or other practitioner who assists the primary surgeon during an operation. These "assistants-at-surgery" are paid a percentage of the total fee paid to the primary surgeon. In view of evidence that this practice may lead to higher costs without better outcomes, this policy will make the same payment for a surgery

regardless of whether the primary surgeon elects to use an assistant-at-surgery. **This proposal achieves about \$0.4 billion in savings over five years.**

- Create Incentives to Control High-Volume Inpatient Physician Services. Urban Institute research has found wide variation among hospitals in the volume of physician services per admission, even after adjusting for case severity, teaching hospital status, and disproportionate-share status. This proposal would create incentives to encourage physicians with high-volume inpatient practice styles to become more efficient. Effective January 1, 2000, this proposal would limit payments to groups of physicians practicing in hospitals whose volume and intensity of services per admission exceeded 125 percent of the national median for urban hospitals (125 percent in 2002 and thereafter) and 140 percent for rural hospitals. For each physician practicing in hospitals above those limits, 15 percent of each payment would be withheld during the year. If the physicians collaborate to efficiently manage the volume and intensity of the services they provide during the year, the physicians would receive the withheld payments, plus interest at the end of the year. **This proposal achieves about \$2 billion in savings over five years.**
- Direct Payment to Physician Assistants, Nurse Practitioners, and Clinical Nurse Specialists in Home and Ambulatory Care Settings. Medicare currently pays for services provided by physician assistants, nurse practitioners and clinical nurse specialists -- but only in limited settings (primarily rural areas and nursing facilities). Effective January 1, 1998, this proposal would expand coverage to include home and ambulatory care settings in which a separate facility or provider fee is not charged. **The five-year investment for this proposal is about \$0.6 billion.**
- Pay Based on Acquisition Costs Subject to a Limit for Outpatient Drugs Prescribed in Physicians' Offices. While Medicare does not have an expansive outpatient drug benefit, it does cover certain kinds of outpatient drugs, e.g., certain specific drugs that are used with home infusion or inhalation equipment and drugs that are prescribed for dialysis and organ transplant patients. Medicare typically pays for these drugs based on the charge submitted by providers, usually physicians or pharmacies. The HHS IG estimates that Medicare currently pays 15 to 30 percent more than what the provider paid for the drug. Effective January 1, 1998, this proposal would eliminate that mark-up by basing Medicare's payment on the provider's acquisition cost of the drug. As a back-stop, payments for a particular drug would not be allowed to exceed the national median cost of that drug. **This policy achieves about \$0.8 billion in savings over five years.**
- Improve Access to Chiropractic Services. If a beneficiary chooses to see a chiropractor for Medicare-covered services, Medicare currently requires that the beneficiary get an x-ray demonstrating spinal subluxation (i.e., misalignment) before beginning chiropractic spinal manipulation services. In some cases, this x-ray requirement may hinder a beneficiary's access to chiropractic services. Effective January 1, 1998, this proposal

would eliminate the pre-treatment x-ray requirement. **The five-year investment for this proposal is about \$0.2 billion.**

SKILLED NURSING FACILITIES

The President's plan achieves about \$7 billion in skilled nursing facility savings over five years. The SNF program is one of the fastest growing benefits, with a projected average annual growth rate of 10.5 percent over the period FY 1997-FY 2002. This high growth is driven primarily by increases in intensity of service. While the average number of days per user is fairly stable, SNF patients are receiving an increasing amount of therapy services; SNF patients incurring at least \$2,000 in therapy charges per stay increased from 12 percent in 1989 to 26 percent in 1992. Overall, reimbursement per SNF day is projected to more than double between FY 1992 and FY 1997, rising from \$151 per day to \$314 per day. Medicare SNFs are reimbursed on a cost basis, subject to certain limits. For SNFs, limits are applied only to the routine services (i.e., room and board, nursing, administration, and other overhead); ancillary (e.g., drugs, physical therapy, speech therapy) and capital-related costs are not subject to any limits. Medicare's current retrospective reimbursement rates contribute to rising expenditures by providing incentives to increase costs. The SNF proposals make the following changes in reimbursement:

- Extend Savings from OBRA 1993 SNF Cost Limits Freeze. OBRA 1993 eliminated the annual update to the SNF routine cost limits for FY 1994 and FY 1995. Although this proposal would not extend the freeze, future SNF payments would be decreased by an amount necessary to recapture these savings as though the freeze had been extended.
- Establish Per-Diem SNF PPS, Beginning in FY 1998. The prospective rate would be designed to cover all three (i.e., routine, ancillary, and capital-related) SNF costs and would be case-mix adjusted. The PPS rates would also be set in a manner that reflects the permanent capture of the savings from the OBRA 1993 freeze on SNF cost limits.

OTHER PROVIDERS

The President's plan achieves about \$2 billion in savings over five years by making a number of changes in reimbursement for a variety of other Medicare providers.

- Establish Competitive Bidding for Laboratories, Durable Medical Equipment and Other Items. The General Accounting Office and the HHS Inspector General have recommended that Medicare use more competitive strategies in managing payment for durable medical equipment and other items and supplies. Numerous reports over the past five years have indicated that private payers using competitive acquisition strategies paid 17 to 48 percent less than Medicare for certain nutritional supplements, that Medicare pays \$2.32 for surgical dressings that wholesale at 19 cents and for which VA pays 4

cents, and that Medicare pays 176 percent more than physicians for certain panels of laboratory tests. This proposal allows the Secretary to competitively bid for these and other items. **This proposal saves about \$1 billion over five years.**

- **Reduce Updates for Ambulatory Surgical Center Fees Through 2002.** Medicare pays for ambulatory surgical center (ASC) services on the basis of prospectively determined rates. These rates are updated annually for inflation using the CPI-U. OBRA 1993 eliminated updates for ASCs for FY 1994 and FY 1995. Utilization of ASC services has escalated rapidly since the mid-1980s. In addition, the number of ASC facilities has increased dramatically over the same period, suggesting that Medicare's payment rates are more than adequate to cover facility costs. This proposal would reduce the annual CPI update for ASC fees by 2 percentage points for each year between FY 1998 and 2002. **This proposal achieves about \$0.3 billion in savings over five years.**
- **Reform Payment for Certain Automated Laboratory Tests.** Medicare currently pays individually for several common laboratory tests that are typically performed as a group (or "panel" of tests) on automated equipment. This means that Medicare pays more for common tests than most private insurers pay. This proposal would add several chemistry tests to the existing list of tests that are classified and paid as automated tests. **This proposal achieves about \$0.1 billion in savings over five years.**

BENEFICIARY PREMIUMS

- **Extend Part B Premium at 25% of Program Costs.** Premiums for Part B of Medicare are specified in the Medicare law for years 1991-1995. OBRA 1993 set the Part B premium at 25 percent of SMI program costs for 1996-1998. This provision would extend the OBRA 1993 provision and permanently set Part B premiums at 25 percent of Part B program costs. **Five-year net savings from this proposal are about \$10 billion.**

BENEFICIARY INVESTMENTS

The President's plan makes a \$15 billion investment over five years to protect beneficiaries from unusually high coinsurance payment for certain services and to increase preventive health care to improve senior's health status.

- **Set an Appropriate Level of Beneficiary Coinsurance for Hospital Outpatient Department Services.** Another flaw in the reimbursement methodology for outpatient department services involves how beneficiary coinsurance payments are calculated. Because many outpatient services -- such as clinic visits, surgery, and physical therapy -- are reimbursed by Medicare based on cost, and cost is not known at the time of service delivery, copayments are calculated as 20 percent of *charges*. Because charges are significantly higher than the outpatient costs that Medicare recognizes, beneficiary coinsurance for

these services amounts to significantly more than 20 percent of the hospital's costs. In fact, beneficiaries currently make copayments of 46 percent on these outpatient services, and the percentage is rising as charges increase faster than costs. As part of the proposal to implement an OPD PPS, the President's plan proposes to "buy-down" beneficiary coinsurance to 20 percent by 2007. **The five-year investment for this proposal is about \$7 billion.**

- **Expand Preventive Benefits.** The President's plan strengthens the Medicare benefit package by expanding coverage for important preventive care, and it takes steps to encourage families to keep beneficiaries in the community and simultaneously avoid institutional costs for Medicare and Medicaid.

- **Waive Cost-Sharing for Mammography Services.** Although Medicare's coverage of screening mammography services began in 1991, only 14 percent of eligible beneficiaries without supplemental insurance received mammograms during the first two years of the benefit. One factor is the required 20 percent coinsurance. To remove financial barriers to women seeking preventive mammograms, this proposal waives the Medicare coinsurance and the deductible, effective January 1, 1998. **The five-year investment for this proposal is about \$0.3 billion.**

- **Expand Screening Mammography Coverage for Beneficiaries Age 65 and Over.** OBRA 1990 mandated coverage of annual screening mammography for Medicare beneficiaries age 50-64, but only biennial mammograms for those 65 and over. This proposal would cover annual screening mammograms for beneficiaries age 65 and over, effective January 1, 1998. **The five-year investment for this proposal is about \$0.4 billion.**

- **Cover Colorectal Screening.** Effective January 1, 1998, this proposal would cover four common preventive screening procedures -- barium enemas, colonoscopy, sigmoidoscopy, and fecal-occult blood tests -- for detection of colorectal cancers. Current law provides for these procedures only as diagnostic services. Normal coinsurance and deductibles would apply. **The five-year investment for this proposal is about \$2 billion.**

- **Increase Payments to Providers for Preventive Injections.** Effective January 1, 1998, this proposal would increase the payment for administration of Medicare-covered preventive injections, which include pneumonia, influenza, and hepatitis B vaccines. It is expected that enhanced payment will increase utilization of these vital preventive services. In addition, the Part B deductible and coinsurance would be waived for hepatitis B injections, just as it is waived currently for other injections. **The five-year investment for this proposal is about \$0.4 billion.**

- Establish Diabetes Self-Management Benefit. Effective January 1, 1998, this proposal would provide Medicare coverage of diabetes outpatient self-management training services rendered by a certified provider in an outpatient setting. The proposal would also allow Medicare to cover blood-glucose monitors and associated testing strips as durable medical equipment for both Type II and Type I diabetics. Normal coinsurance and deductibles would apply. This proposal would also reduce payment for testing strips by 10 percent based on evidence of current overpayment for these items. **The five-year investment for this proposal is about \$1 billion.**
 - Establish Respite Benefit. This proposal would establish a Medicare respite benefit for families of beneficiaries with Alzheimer's disease or other irreversible dementia, beginning in FY 1998. The benefit would cover up to 32 hours of care per year and would be administered through home health agencies or other entities, as determined by the HHS Secretary. **The five-year investment for this proposal is about \$2 billion.**
- Restructure Enrollment and Premium Surcharges. Under current law, the Part B enrollment surcharge -- the penalty that beneficiaries pay for enrolling late -- is purely punitive and not at all linked to the costs borne by the program due to late enrollment. This proposal replaces the current punitive Part B premium surcharge with a surcharge based on the actuarially determined cost of late enrollment. This proposal would also replace the general enrollment period for Part B and premium Part A with a continuous open enrollment period. **The five-year investment for this proposal is about \$0.8 billion.**
- Assistance for the Working Disabled. The President's plan proposes a Medicare demonstration project to encourage Social Security Disability Insurance (SSDI) beneficiaries to work. Under the four-year demonstration project, SSDI beneficiaries who return to work would receive free Part A coverage. **The five-year investment for this proposal is about \$0.1 billion.**
- In addition, the President is proposing significant structural reforms that will bring Medicare into the 21st century. The President's plan also includes market-oriented reforms to assure quality and make the program more efficient.

THE WHITE HOUSE
WASHINGTON

MEMORANDUM

February 5, 1997

TO: Interested Parties
FROM: Chris Jennings
RE: Health Care Initiatives and the Budget

Attached is a summary of the health care reform initiatives included in the President's balanced budget and a detailed description of the initiatives on Medicare, Medicaid, and other health coverage issues. Background on the President's home health care policy is also included.

I hope that you find this information useful. **Please DO NOT DISTRIBUTE this information until after 8 p.m. Wednesday, February 5.**

The President's FY 1998 Budget Health Care Reform Proposals

Preserving and Strengthening Medicare

- ▶ Saves approximately \$100 billion over 5 years (\$138 billion over six years), modernizes the program, and extends the life of the Trust Fund to 2007.

Restraining Growth in the Program

- ▶ Constrains payments to health plans and providers, such as managed care, hospitals, nursing homes, home health care.
- ▶ Extends current law that sets Part B premium at 25 percent of program costs.
- ▶ Combats fraud and abuse by enacting new program integrity provisions and by repealing the provisions Congress enacted last year that weaken fraud and abuse enforcement.

Improving Benefits

- ▶ Invests in preventive health care such as diabetes management, colorectal screening, annual mammograms without copayments, and increases reimbursement rates for certain immunizations to protect seniors from pneumonia, influenza, and hepatitis.
- ▶ Establishes a new respite care benefit to assist families of Medicare beneficiaries with Alzheimer's and related diseases.
- ▶ Phases down excessive outpatient copayments to the traditional 20 percent level.
- ▶ Adds Medigap protections to increase the security of Medicare beneficiaries.

Modernizing Medicare

- ▶ Provides more choices by establishing new private health plans options (such as preferred provider organizations and provider sponsored organizations).
- ▶ Establishes market-oriented purchasing for Medicare including: new prospective payment systems for home health care, nursing home care, and outpatient services; competitive pricing authority; and expanded "centers of excellence" to improve quality and reduce costs.
- ▶ Addresses flaws in Medicare's current payment methodology for managed care, which combined with a new national minimum floor, will reduce geographical variation in rates.

Protecting and Preserving Medicaid

- ▶ **Savings and Investments.** The President's proposal saves, on net, about \$9 billion over five years. It would save about \$22 billion over five years, but at the same time, it makes about \$13 billion in investments in Medicaid, including proposals to expand coverage for eligible children, and changes to last year's welfare reform law.

- ▶ **Per Capita Cap.** To stabilize Medicaid growth, the plan includes a “per capita cap,” which would constrain the rate of increase in Federal matching payments per beneficiary.
- ▶ **DSH.** Under the President’s plan, Federal payments for disproportionate share hospitals (DSH) would be tightened and States would have the flexibility to target these payments to a range of essential community providers.
- ▶ **Improved State Flexibility.** The plan contains a number of reforms, including: repealing the “Boren amendment” for hospitals and nursing homes; eliminating the Federal waiver process for States opting for managed care; and eliminating a Federal waiver for States moving populations needing long-term care from nursing homes to home- and community-based care.
- ▶ **Medicaid and Medicare for Workers with Disabilities.** The plan enables SSI beneficiaries with disabilities to keep their Medicaid when they return to work. It also includes a demonstration program that allows certain SSDI beneficiaries receiving Medicare benefits to maintain their coverage when they return to work.

Expanding Coverage for Workers Who Are In-Between Jobs

- ▶ The President’s plan includes an initiative to help provide health care coverage for workers who are in-between jobs and their families. This initiative would help an estimated 3.2 million Americans, including 700,000 children. This initiative invests \$1.75 billion a year and \$9.8 billion over five years.
- ▶ The plan helps working families continue health insurance coverage, building on Kassebaum-Kennedy’s protections against pre-existing conditions.
- ▶ The plan gives States the flexibility to provide coverage in the way that best meets the needs of their populations.

Expanding Health Care Coverage for Children

- ▶ **Children Whose Parents are In-Between Jobs.** This initiative will provide health care coverage for 700,000 children whose parents are in-between jobs.
- ▶ **Grants to States to Expand Childrens’ Coverage.** The President’s budget provides \$750 million a year (\$3.75 billion over five years) to States to develop innovative programs to provide coverage to children.
- ▶ **Investments in Medicaid to Expand Coverage.** The plan expands coverage for children by investing in Medicaid. It:
 - Gives States the option to extend one year of continuous Medicaid coverage to all children who are determined eligible for Medicaid.
 - Proposes to work with States and the private sector to reach out to the three million children who are enrolled but not eligible for Medicaid.

HIGHLIGHTS OF THE PRESIDENT'S MEDICARE REFORM PLAN

Medicare Savings

Approximately \$100 billion over 5 years; \$138 billion over 6 years.

Medicare Trust Fund

Extends the solvency of the Trust Fund to 2007 through a combination of scorable savings and programmatic and structural changes.

Beneficiary Provisions

Extends current law that sets Part B premium at 25 percent of program costs. This policy achieves \$10 billion in savings over 5 years. The Part B premium would go below this percentage without this change after 1998; the expenditures associated with the reallocation of some home health expenditures are excluded from this calculation.

Invests in preventive health care to improve seniors' health status and reduce the incidence and costs of disease. The plan covers colorectal screening, diabetics management, and annual mammograms without copayments, and it increases reimbursement rates for certain immunizations to ensure that seniors are protected from pneumonia, influenza, and hepatitis.

Establishes a new Alzheimer's respite benefit starting in 1998 to assist families of Medicare beneficiaries with Alzheimer's and related diseases.

Buys down excessive outpatient copayments to the traditional 20 percent level. Because of a flaw in reimbursement methodology, beneficiaries now in effect contribute a 46 percent copayment. Our policy will prevent further increases in copayments and reduce the copayment to 20 percent by 2007.

Adds Medigap protections (such as new open enrollment requirements and prohibitions against the use of pre-existing condition exclusions) to increase the security of Medicare beneficiaries who wish to opt for managed care but fear they will be unable to access the Medigap policy of their choice if they decide to return to the fee-for-service plan. (This provision is consistent with bipartisan legislation pending before Congress.)

Provides new private plan choices (through new PPO and Provider Service Organization choices) for beneficiaries.

Provider Impact

Hospitals

Through a series of traditional savings (reductions in hospital updates, capital payments, etc.), achieves about \$33 billion in savings over 5 years.

Establishes new provider service organization (PSOs), which will allow hospitals (and other providers) to establish their own health care plans to compete with current Medicare HMOs.

Establishes a new pool of funding, about \$11 billion over 5 years for direct payment to academic health centers to ensure that academic health centers are compensated for teaching costs. This is funded by carving out medical education and disproportionate share (DSH) payments from the current Medicare HMO reimbursement formula.

Managed Care

Through a series of policy changes, the plan will address the flaws in Medicare's current payment methodology for managed care. Specifically the reforms will create a national floor to better assure that managed care products can be offered in low payment areas, which are predominantly rural communities. In addition, the proposal includes a blended payment methodology, which combined with the national minimum floor, will dramatically reduce geographical variations in current payment rates. Medicare will reduce reimbursement to managed care plans by approximately \$34 billion over 5 years. Savings will come from three sources:

(1) Because HMO payments are updated based on projections of national Medicare per-capita growth, when the traditional fee-for-service side of the program is reduced, HMO payments are reduced. The savings from this is \$18 billion over five years;

(2) The elimination of the medical education and DSH payments from the HMO reimbursement formula (these funds will be paid directly to academic health centers). Savings from this proposal are \$9 billion over five years; and

(3) A phased-in reduction in HMO payment rates from the current 95 percent of fee-for-service payments to 90 percent. A number of recent studies have validated earlier evidence that Medicare significantly overcompensates HMOs. The reduction does not start until 2000 and it accounts for a relatively modest \$6 billion in savings over 5 years.

Home Health Care

Saves about \$14 billion over 5 years through the transition to and establishment of a new prospective payment system.

**Home Health Expenditure
Reallocation**

Home health care has become one of the fastest growing components of the Medicare program, growing at double digit rates. Originally designed as a post-acute care service under Part A for beneficiaries who had been hospitalized, home health care has increasingly become a chronic care benefit not linked to hospitalization. The President's proposal restores the original split of home health care payments between Parts A and B of Medicare. The first 100 home health visits following a 3-day hospitalization would be reimbursed by Part A. All other visits -- including those not following a hospitalization -- would be reimbursed by Part B.

The restoration of the original policy will not count toward the \$100 billion in savings in the President's plan. The policy avoids the need for excessive reductions in payments to hospitals, physicians, HMOs, and other health care providers while helping to extend the solvency of the Part A Trust Fund.

See additional provisions under Fraud and Abuse which save \$1.3 billion over five years.

Physicians

Saves about \$7 billion over 5 years through a modification of physician updates. This reduction is relatively small because Medicare has been relatively effective in constraining growth in reimbursement to physicians.

Skilled Nursing Facilities

Saves about \$7 billion over 5 years through the establishment of a prospective payment system.

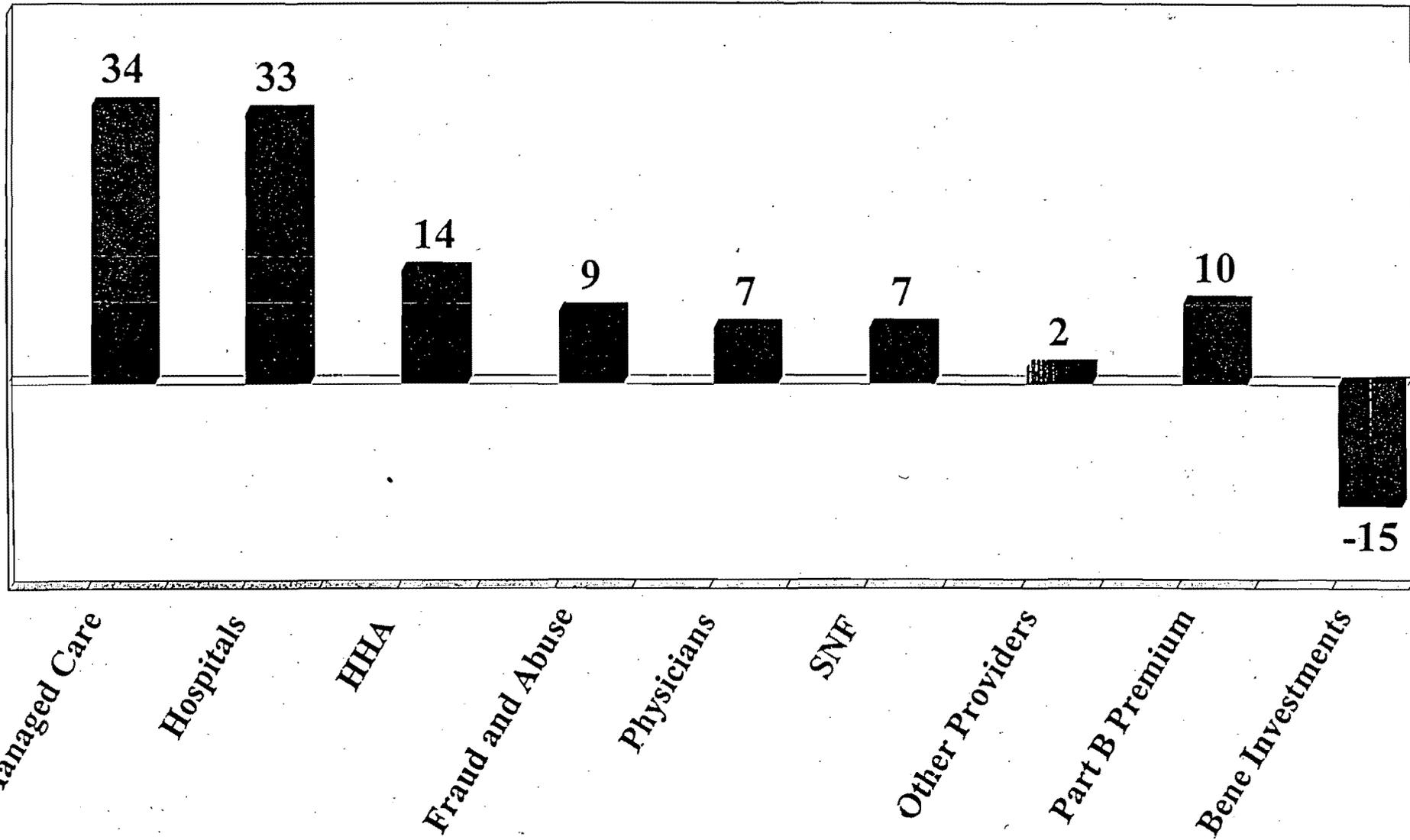
Fraud and Abuse

Saves about \$9 billion over 5 years through a series of provisions to combat fraud and abuse in areas such as home health care, by requiring insurers to provide information about insurance coverage of beneficiaries, and by repealing the provisions Congress enacted last year that weaken fraud and abuse enforcement.

Distribution of Medicare Savings

FY 1998 President's Budget

FY 1998 - FY 2002



**THE PRESIDENT'S LATEST MEDICARE PROPOSAL
DEMONSTRATES HIS COMMITMENT TO REAL REFORM AND
MEETS THE REPUBLICANS HALFWAY.**

	Republican 1996 Proposal¹	President's Current Proposal²	President's 1996 Proposal³
6-YEAR	\$158 Billion	\$138 Billion	\$116 Billion

¹ 1996 Proposal (April 1996 baseline). Six-year period is FY 1997-FY 2002. (Medicare savings stream as reported in the Senate Budget Resolution Report, 5/13/96).

² HCFA Actuaries' Estimates. Six-year period is FY 1998-FY 2003. **The additional savings come from a range of policy changes, but the most notable increase in savings comes from managed care and home health care.**

³ 1996 Proposal (April 1996 baseline). Six-year period is FY 1997-FY2002. ("CBO's Estimates of the President's Budgetary Proposals" in "The Economic & Budget Outlook: FY 1997-2002").

HIGHLIGHTS OF THE PRESIDENT'S MEDICAID REFORM PLAN

Medicaid Savings and Investments

The President's plan saves approximately \$9 billion net of new investments over 5 years.

Through a combination of policies to reduce and target spending on disproportionate share hospitals (DSH) more effectively and establish a per-beneficiary limit on future Medicaid growth, the plan would save \$22 billion over five years.

Roughly two-thirds of the savings comes from a reduction in Disproportionate Share Hospital (DSH) payments and roughly one-third from the per capita cap.

In addition, the President's plan invests \$13 billion in improvements to Medicaid, including health initiatives to expand coverage for children, changes to last year's welfare reform law, and new policies to help people with disabilities return to work.

Guarantee of Coverage

The 37 million children, pregnant women, people with disabilities, and older Americans who are currently covered by Medicaid would retain their Federal guarantee of health care coverage for a meaningful set of benefits.

Per Capita Cap

Even though the overall Medicaid baseline has fallen over the past few years, Medicaid spending growth is still expected to increase by over 8 percent annually after the year 2000. To stabilize Medicaid growth, the President's budget would set a per capita cap on Medicaid spending. The cap would constrain the rate of increase in Federal matching payments per beneficiary.

The per capita cap protects States facing population growth or economic downturns because it ensures that Federal dollars are linked with beneficiaries.

DSH Payments

Federal DSH payments would be tightened without undermining the important role these funds play for providers that serve a disproportionate number of low-income and Medicaid beneficiaries.

Improved State Flexibility

The President's plan incorporates the highest-priority State flexibility requests advocated by the National Governors' Association. It:

- Repeals the "Boren amendment" for hospitals and nursing homes, to allow States more flexibility to negotiate provider payment rates;
- Eliminates Federal waiver process for States opting for managed care; and
- Allows States to serve people needing long-term care in home- and community-based settings without Federal waivers, and a number of other initiatives.

Improves Quality Standards

The President's plan maintains existing Federal standards and enforcement for nursing homes and institutions for people with mental retardation and developmental disabilities. Quality standards for managed care systems would be updated and enhanced.

Expanded Coverage for Children

The President's plan includes measures to enhance coverage for Medicaid-eligible children. It:

- Provides continuous coverage for children: The President's budget provides States with the option to extend 12 months of continuous Medicaid coverage, guaranteeing more stable coverage for children and reducing the administrative burden on Medicaid officials, providers, and families.
- Encourages outreach to help more children receive Medicaid: The Administration will work with States to develop innovative ways to reach and sign up for Medicaid some of the 3 million children who are eligible for Medicaid but are not currently enrolled.

Modifications to Welfare Reform Law

The President's plan includes provisions to ameliorate some of the effects of the welfare reform law, including:

- Exempting disabled immigrants from the ban on SSI benefits to ensure they retain their Medicaid benefits.
- Exempting immigrant children and disabled immigrants from the bans on Medicaid benefits for immigrants, and from the new "deeming" requirements that mandated that the income and resources of an immigrant's sponsor be counted when determining program eligibility.
- Extending from 5 to 7 years the exemption from the Medicaid bans and deeming requirements for refugees and asylees.
- Retaining Medicaid coverage for disabled children currently receiving Medicaid who lose their Supplemental Security Income (SSI) benefit because of changes in the definition of childhood disability.

Provision to Help Workers with Disabilities

The President's plan recognizes that many people with disabilities want to work but they face significant barriers. The plan would help people with disabilities return to work risking their health care coverage. As a State option, SSI beneficiaries with disabilities who earn more than certain amounts could keep Medicaid. They would contribute to the cost of coverage on their income rises.

HIGHLIGHTS OF THE PRESIDENT'S INITIATIVES TO MAINTAIN AND EXPAND WORKERS' COVERAGE

Because most Americans have employment-based health insurance, health care coverage is often jeopardized for workers who change jobs. In fact, over 50 percent of the uninsured lost their health insurance due to a job change. Many of these uninsured Americans are the spouses and children of workers. The President's initiative will provide temporary premium assistance to families with workers who are in-between jobs. For millions of these workers and their families this assistance could make it possible for them to maintain their health care coverage while looking for another job. This initiative is fully paid for within the President's FY 1998 balanced budget plan. In addition, to assist small businesses - which often have more difficulty providing and maintaining health care coverage for their workers -- the President has proposed to help States create voluntary purchasing cooperatives.

Funding

Invests \$1.75 billion a year and \$9.8 billion over the budget window and is paid for in the President's FY1998 balanced budget.

Eligibility

Helps an estimated 3.3 million Americans in 1998, including about 700,000 children.

- A full subsidy would be provided up to 100% of the poverty level for and would be phased out at 240% of the poverty level.
- To assure that limited federal dollars are cost-effectively targeted, individuals who are eligible for Medicare, Medicaid or who have an employed spouse with coverage, are not eligible for this program.
- While low-income workers would certainly be helped by this benefit, over half of participants would come from families who previously had incomes over \$30,000, for a family of four.

Coverage for Families of Workers Who Are In-Between Jobs

Helps to assure that Kassebaum-Kennedy protections against pre-existing conditions are not placed at risk because of breaks in insurance coverage. It achieves this goal by helping working families retain their health coverage through premium assistance during a time in which they lose much of their income.

Gives States the flexibility to provide coverage in ways that best meets the needs of their populations. States would have flexibility to administer their own programs, (e.g., COBRA, a private insurance product, Medicaid, or an alternative means of coverage).

Voluntary Purchasing Cooperatives

Small businesses have more difficulty providing health care coverage for their workers because they have higher per capita costs due to increased risk and because of extraordinarily high administrative costs.

The President's budget will make it easier for small businesses to provide health care coverage for their employees, by allowing them to band together to reduce their risks, lower administrative costs, and improve their purchasing power with insurance companies.

His budget proposes to empower small businesses to access and purchase more affordable health insurance through the use of voluntary health purchasing cooperatives. This will be accomplished by providing \$25 million a year in grants that States can use for technical assistance, by setting up voluntary purchasing cooperatives, and by allowing these purchasing cooperatives to access to Federal Employees Health Benefit Plans.

HIGHLIGHTS OF THE PRESIDENT'S CHILDREN'S HEALTH INITIATIVES

In 1995, more than 10 million American children had no health insurance. Eighty percent (8 million) of the ten million uninsured children have a parent who is a worker. Many uninsured children have parents who earn too much for Medicaid but too little to afford private coverage, and an estimated three million children are eligible, but not enrolled in Medicaid. The President's plan helps these groups of uninsured children by working with States, communities, advocacy groups, providers, and businesses to expand coverage. Combined with the scheduled Medicaid phase-in of older children, HHS estimates that the President's plan would provide coverage for as many as five million children by the year 2000.

Assistance for Children Whose Parents Are In-Between Jobs

The President's plan includes an initiative to assist workers who are in-between jobs and their families maintain health coverage. The program will cost \$1.75 billion per year and \$9.8 billion over five years, and will help an estimated 3.2 million Americans, including 700,000 children.

This initiative provides funding to States to cover the children of workers who are temporarily in-between jobs. The program would help those families who had employer-based coverage in their prior jobs.

The plan would give States flexibility to administer their own programs (e.g., through Medicaid, COBRA, or an independent program).

Grants to States to Expand Children's Coverage

The President's plan provides \$750 million a year in grants to States (\$3.8 billion over FY 1998-2002) that will build on successful State children's programs like those in Pennsylvania, Washington, Minnesota, and Florida, to identify and provide coverage for uninsured children.

Under the President's plan, States could work with insurers, providers, employers, schools, and others to develop innovative programs to provide coverage to children.

In addition to covering children who fall through the gaps, these new State grants may help identify and enroll children eligible for Medicaid.

Investments to Expand Medicaid Coverage

The President's plan invests in Medicaid to provide better coverage for eligible children. It:

Provides one year of continuous Medicaid coverage to children. The President's budget give States the option to extend 12 months of continuous Medicaid coverage to all children who are determined eligible for Medicaid.

Currently, many children receive Medicaid protection for only part of the year. This is because Federal law requires that a family that has a change in income or some other factor affecting eligibility report it immediately, possibly making them ineligible for Medicaid.

This provision will benefit families who will have the security of knowing that their children will be covered by Medicaid for a full year. It will also help States by reducing administrative costs, and managed care plans, by enabling them to better coordinate care.

Encourages outreach. The President's plan proposes to work with the States, communities, advocacy groups, providers, and businesses to extend Medicaid coverage to the three million children who are eligible for Medicaid but are not currently enrolled.

THE PRESIDENT'S FY 1998 BUDGET: HOME HEALTH CARE REFORM

The President's budget proposes a number of initiatives to control spending in home health expenditures. It implements a prospective payment system and also takes steps to reduce fraud and abuse on home health services. Both of these proposals achieve significant savings. Finally, the budget proposes to reallocate all home health expenditures to the Part B side of program, with the exception of the post-acute portion of the benefit.

- ▶ **Expenditures for Home Health Services are Increasing Faster than for Any Other Medicare Service.**
 - ▶ **Home health care utilization has risen.** The average number of home health visits per user has grown from 26 visits in 1984 to 69 visits in 1994.
 - ▶ **Highest growth in home health services in excess of 100 visits.** The 10 percent of beneficiaries who use more than 200 home health visits per year account for over 40 percent of home health spending.
- ▶ **Implements a Prospective Payment System.** The President's budget implements payment reforms, which would modify costs and lead to separate prospective payment system for home health services. Prospective payments would reduce incentives for overutilization, save billions of dollars, and begin to bring the current double-digit rise in spending on these services under control. **This proposal would save \$14 billion over five years.**
- ▶ **Combats Fraud and Abuse in Home Health Services.** A March, 1996 GAO report on Medicare home health growth recommended that the Congress provide additional resources to HCFA to enhance enforcement controls against fraud and abuse. **The President's Fraud and Abuse initiatives would achieve approximately \$1.4 billion over five years.**
 - ▶ **Home Health Payments on Location of Service.** This proposal would require that payment be determined by the location of the service, rather than the location of the billing office. (Billing offices tend to be in urban areas where rates are higher).
 - ▶ **Eliminate Periodic Interim Payments (PIP) for Home Health.** This proposal would eliminate PIP and simultaneously phase-in a prospective payment system. PIP was initially established to help simplify cash flow for new home health providers by paying them a set amount, and reconciling PIP with actual expenditures at the end of the year.

- o However, with 100 new HHAs joining Medicare each month, access to home health is no longer a problem.
- o Further, the Office of Inspector General has found that Medicare continually overpays PIP and has a hard time recovering the money. This proposal achieves \$1 billion over five years.

▶ **Home Health Expenditure Reallocation.** Under the President's budget, the post-acute part of the budget would remain in Medicare Part A and all other home care services would be transferred from Medicare Part A to Medicare Part B. This proposal would protect Medicare beneficiaries from additional out-of-pocket costs because Part B home care services would not be subject to the 20 percent Part B coinsurance and would not be included in the Part B premium. This shift does not count towards any of the \$100 billion savings in the President's Medicare proposal.

- ▶ **Restores original intent of the policy.** Prior to 1980, the home health benefit was originally designed as a post-acute care service under Part A for beneficiaries who had been hospitalized. Home health care benefits were limited to 100 visits per year and could only be provided after a hospital stay of three or more days.

In 1980, Congress altered the home care benefit by eliminating the 100-visit and the 3-day hospital stay requirement. As a result of these changes, home health care has increasingly become a chronic care not linked to hospitalization. Part A now absorbs about 99 percent of the rapidly growing home health costs.

The President's proposal restores the original intent of the policy so that payments for more than 100 visits are not in Part A of the program, the part of Medicare that pays for acute -- not long-term care services. Under the proposal, the post-acute care portion of the home health benefit would remain in Part A and all other home care services would be transferred from Part A to Part B.

- ▶ **Protects Medicare, Without Excessive Program Cuts**

- ▶ This policy avoids the need for excessive reductions in Medicare payments to hospitals, physicians, and other health care providers, and protects beneficiaries from unjustifiable increases in premiums and other out-of-pocket expenses.
- ▶ Without this policy, Medicare's total growth for Part A would have to be constrained to 3.4 percent per year (2.2 percent per capita), according to CBO -- below the rate of inflation.
- ▶ This proposal is an integral part of the President's Medicare plan which extends the life of the Medicare Trust Fund to 2007 without imposing any new costs on beneficiaries or undermining the high quality services.