

DOMESTIC POLICY COUNCIL
POLICY DEVELOPMENT

OPD/DPC

Sarah Bianchi
Box #1

- Background Medicare 1995
- Medicare Competition
- Medicare Initiatives
- Medicare Policies
- Medicare Briefing
- Medicaid
- Medicaid Block Grant
- Medicare Reports
- Medicare Event Materials: July 27, 1999
- Medicare Background
- Medicare
- Mental Health Conference
- Mental Health Conference
- Background: Mental Health

ENCLOSURES FILED OVERSIZE ATTACHMENTS **15606**
6 boxes filed 4/25/2000
DATA 13085

Background: Medicare, 1995

PHOTOCOPY
PRESERVATION

PHOTOCOPY
PRESERVATION

Medical Savings

PHOTOCOPY
PRESERVATION

MEMORANDUM

September 27, 1995

TO: Julie James
Bruce Lesley

FROM: Murray Ross 

SUBJECT: Estimating savings from Medicare Choice in the Chairman's Mark

CBO's estimate of savings from Medicare Choice is the net result of changes in spending from three sources:

- o lower updates on payments made on behalf of current enrollees (strictly speaking, the share of Medicare beneficiaries enrolled in risk contracts under current law);
- o savings associated with new enrollees (the estimated fraction of Medicare beneficiaries moving from traditional fee-for-service to Choice plans other than high deductible plans); and
- o payments on behalf of beneficiaries choosing the high deductible insurance/medical savings account option.

Over seven years, CBO estimates that savings on current enrollees would total \$42.6 billion (see attached table). Savings on new enrollees would total about \$7.1 billion. Payments to Choice enrollees with high deductible plans would cost about \$2.3 billion as a result of adverse selection not fully compensated for by risk adjustment. The net savings attributed to Medicare Choice is \$47.5 billion.

CBO's estimate assumes that enrollment in Choice plans (including high deductible plans) would reach about 22% of Medicare beneficiaries by 2002, compared with the 14% of beneficiaries projected to be covered by risk plans in the CBO baseline. Most of the increase is attributable to CBO's assumptions about beneficiaries' responses to the new government-coordinated open enrollment process and expanded choices. CBO assumed that there would be a short-run increase in enrollment reflecting these factors, but a slightly lower rate of growth in future enrollment. In addition, CBO assumed that eliminating the entitlement to cost-sharing for Medicaid eligibles and QMBs would increase enrollment as those beneficiaries sought out plans with lower cost-sharing requirements.

CBO ASSUMPTIONS UNDERLYING CALCULATION OF MEDICARE CHOICE SAVINGS

	Fiscal Years							
CHANGE IN SPENDING (Billions of dollars)	1996	1997	1998	1999	2000	2001	2002	Total
Baseline Enrollees	-0.4	-1.9	-3.6	-5.4	-7.5	-10.2	-13.7	-42.6
New Enrollees (excluding high deductible plans)	-0.0	-0.1	-0.7	-1.0	-1.3	-1.8	-2.3	-7.1
High-Deductible Plans/MSAs	0.0	0.4	0.4	0.4	0.4	0.4	0.4	2.3
Total	-0.4	-1.5	-3.9	-6.0	-8.4	-11.6	-15.7	-47.5

MANAGED CARE ENROLLMENT (As percent of all Medicare beneficiaries)	1996	1997	1998	1999	2000	2001	2002
CBO Baseline (risk contracts only)	8	9	10	11	12	13	14
Medicare Choice	8	13	17	19	20	21	22
Risk Plans	8	12	16	18	19	20	21
High-Deductible Plans/MSAs	0	1	1	1	1	1	1

Note: Change in spending is difference from Budget Resolution baseline.

Source: Preliminary Congressional Budget Office estimates based on policy in Chairman's mark and discussions with Committee staff.

Medicare Restructuring

PHOTOCOPY
PRESERVATION

MEMORANDUM

September 27, 1995

TO: Julie James
Bruce Lesley

FROM: Murray Ross 

SUBJECT: Estimating savings from Medicare Choice in the Chairman's Mark

CBO's estimate of savings from Medicare Choice is the net result of changes in spending from three sources:

- o lower updates on payments made on behalf of current enrollees (strictly speaking, the share of Medicare beneficiaries enrolled in risk contracts under current law);
- o savings associated with new enrollees (the estimated fraction of Medicare beneficiaries moving from traditional fee-for-service to Choice plans other than high deductible plans); and
- o payments on behalf of beneficiaries choosing the high deductible insurance/medical savings account option.

Over seven years, CBO estimates that savings on current enrollees would total \$42.6 billion (see attached table). Savings on new enrollees would total about \$7.1 billion. Payments to Choice enrollees with high deductible plans would cost about \$2.3 billion as a result of adverse selection not fully compensated for by risk adjustment. The net savings attributed to Medicare Choice is \$47.5 billion.

CBO's estimate assumes that enrollment in Choice plans (including high deductible plans) would reach about 22% of Medicare beneficiaries by 2002, compared with the 14% of beneficiaries projected to be covered by risk plans in the CBO baseline. Most of the increase is attributable to CBO's assumptions about beneficiaries' responses to the new government-coordinated open enrollment process and expanded choices. CBO assumed that there would be a short-run increase in enrollment reflecting these factors, but a slightly lower rate of growth in future enrollment. In addition, CBO assumed that eliminating the entitlement to cost-sharing for Medicaid eligibles and QMBs would increase enrollment as those beneficiaries sought out plans with lower cost-sharing requirements.

CBO ASSUMPTIONS UNDERLYING CALCULATION OF MEDICARE CHOICE SAVINGS

	Fiscal Years							
CHANGE IN SPENDING (Billions of dollars)	1996	1997	1998	1999	2000	2001	2002	Total
Baseline Enrollees	-0.4	-1.9	-3.6	-5.4	-7.5	-10.2	-13.7	-42.6
New Enrollees (excluding high deductible plans)	-0.0	-0.1	-0.7	-1.0	-1.3	-1.8	-2.3	-7.1
High-Deductible Plans/MSAs	0.0	0.4	0.4	0.4	0.4	0.4	0.4	2.3
Total	-0.4	-1.5	-3.9	-6.0	-8.4	-11.6	-15.7	-47.5

MANAGED CARE ENROLLMENT (As percent of all Medicare beneficiaries)	1996	1997	1998	1999	2000	2001	2002
CBO Baseline (risk contracts only)	8	9	10	11	12	13	14
Medicare Choice	8	13	17	19	20	21	22
Risk Plans	8	12	16	18	19	20	21
High-Deductible Plans/MSAs	0	1	1	1	1	1	1

Note: Change in spending is difference from Budget Resolution baseline.

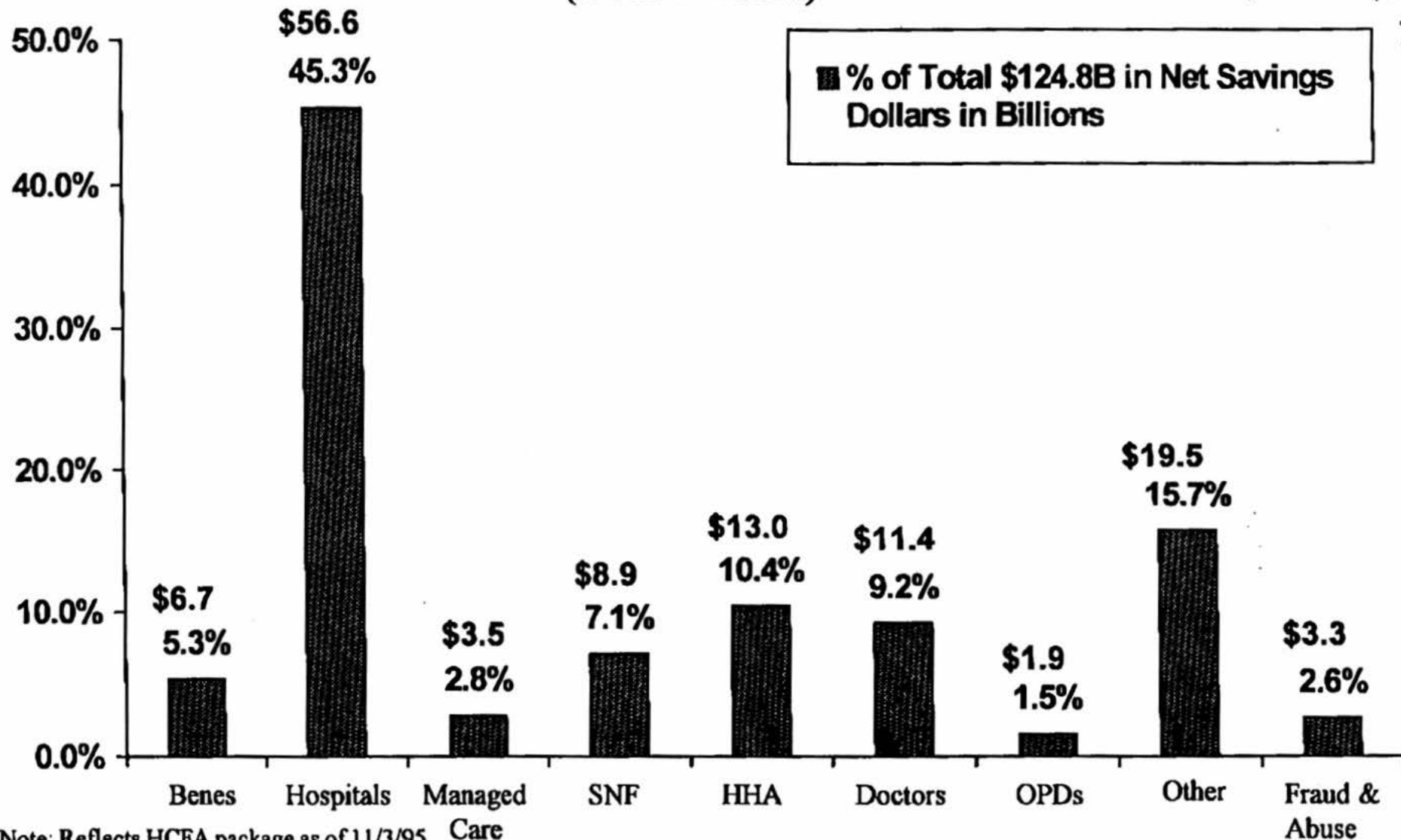
Source: Preliminary Congressional Budget Office estimates based on policy in Chairman's mark and discussions with Committee staff.

Medicare
POTUS Policy

PHOTOCOPY
PRESERVATION

Medicare Policy
 of
 NOTEBOOK
 (Also put in
 Medicare this
 section
 in the
 notebook.)

ADMINISTRATION MEDICARE CUTS BY CATEGORY (Over 7 Years)



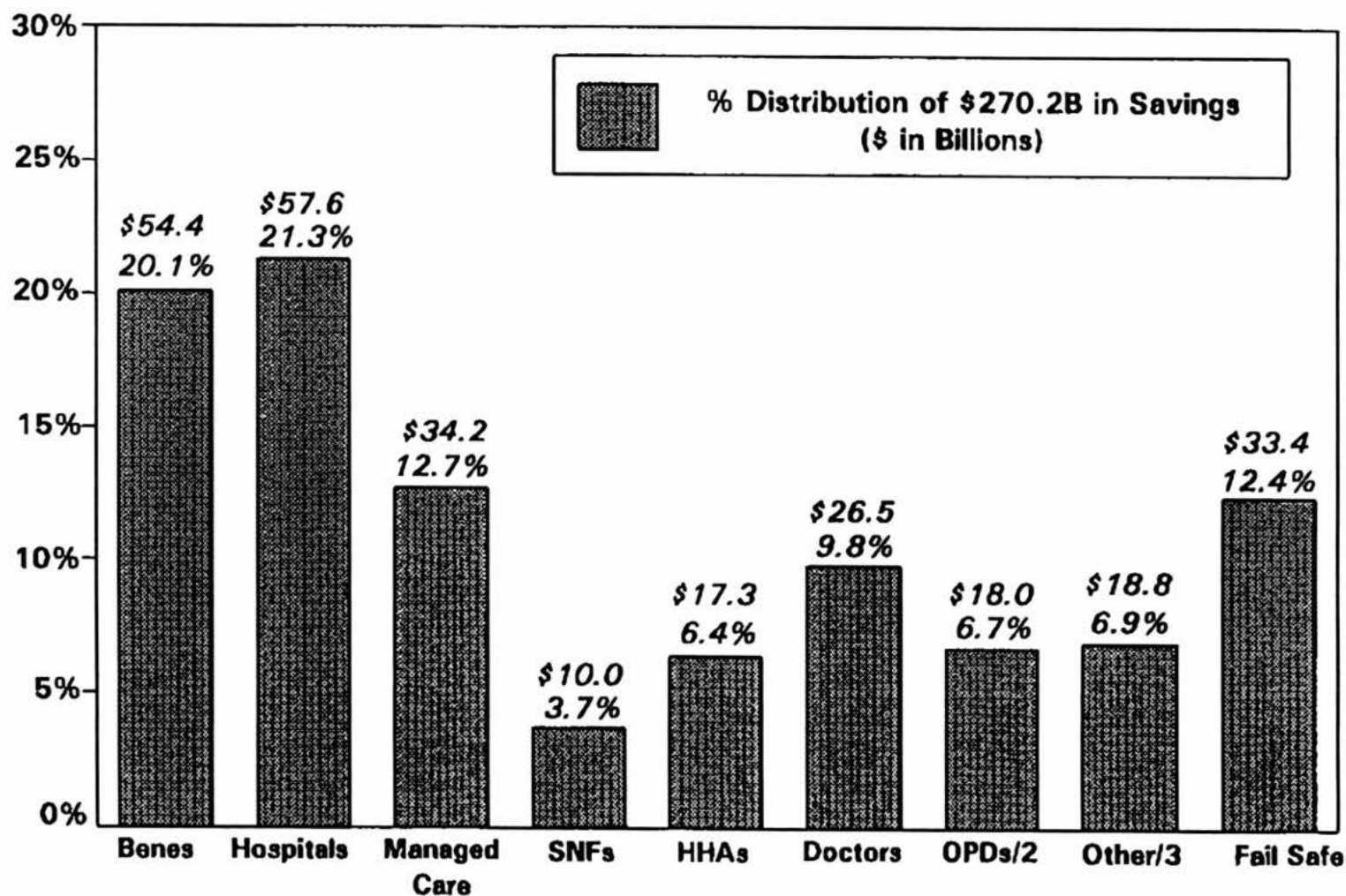
Note: Reflects HCFA package as of 11/3/95.

Note: Total Medicare Savings of \$124.8B includes the effect of \$3.5B in new Medicare benefits under the beneficiary category.

Note: Chart does not include savings from fix of hospital OPD formula-driven overpayment (\$13.7B) which will be passed on to beneficiaries. To calculate the package's full effect on hospitals, OPD and FDO must be taken into account. The total hospital effect would include: \$56.6B hospital savings plus \$1.9B OPD plus \$13.7B FDO equalling \$72.2B, or 52.1% of \$138.5B total (including FDO).

November 8

HOUSE REPUBLICAN MEDICARE CUTS BY CATEGORY (H.R. 2425) /1 (Over 7 Years)



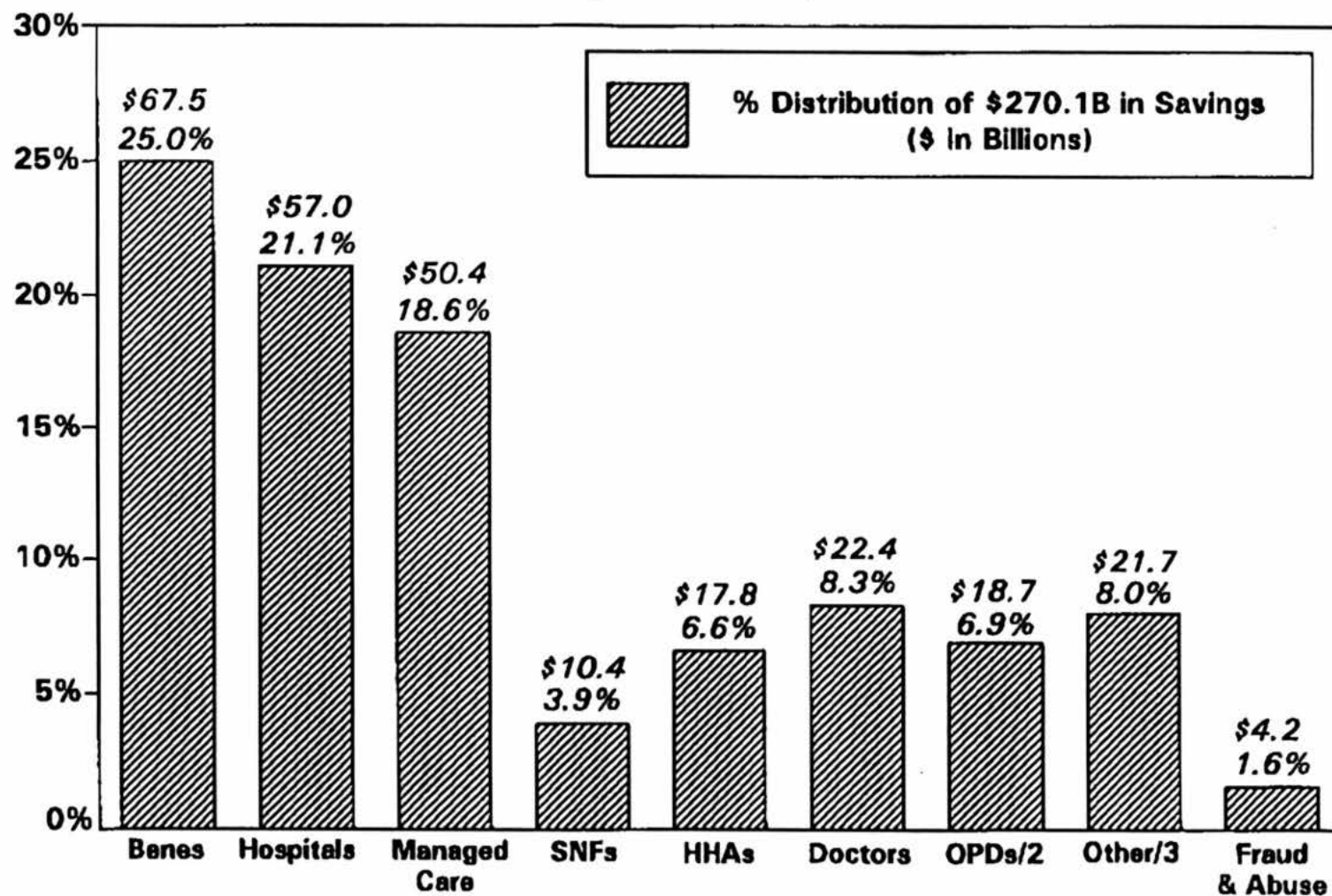
/1 CBO Final Scoring of House-Passed Bill Not Yet Available

/2 Includes Savings from Elimination of FIDO

/3 Includes other provider, fraud, and MSP savings

November 8

SENATE FINANCE REPUBLICAN MEDICARE CUTS BY CATEGORY /1 (Over 7 Years)



/1 CBO Final Scoring of Senate-Passed Bill Not Yet Available

/2 Includes Savings from Elimination of FIDO

/3 Includes Hospice, Other Part B Providers, and MSP

Medicare Income
Based (means test)

PHOTOCOPY
PRESERVATION

Income Related Premiums

25% > 3.3%

HSA

single: 90,000 — 105,000 (pay 75% @ 105,000)
 couple: 115,000 — 130,000 (pay 75% @ 130,000)

10-1

House

single: 75,000 — 100,000 (pay 100% @ 100K / 7.3
 couple: 125,000 — 175,000 (pay 100% @ 175K / 19.9)

Save

single: 50,000 — 100,000 (pay 100% @ 100K)
 couple: 75,000 — 150,000 (pay 100% @ 150K) 712.8

71.

PHOTOCOPY
PRESERVATION

Comparison of Historic & Projected Medicaid Per Capita Growth Rates

al

	FY 1993 - 1995 Per Capita Growth FY 96 MSR Baseline	FY 1996 - 2002 Per Capita Growth FY 96 MSR Baseline	FY 1996 - 2002 Per Capita Growth March 95 CBO Baseline
Adults	1.6%	5.2%	8.3%
Aged	5.8%	3.4%	5.5%
Children	2.3%	6.3%	8.2%
Disabled	1.7%	4.0%	6.4%
Total	4.7%	5.7%	7.5%

5.6%

ID:

OCT 26 '95

9:24 No.001 P.02

Medicaid Reform, Assume President's Plan, FYs 1996-2002
Assumes Cap is 100% Effective
 (billions \$)

2

	<u>\$54 Billion Cap - Administration Baseline</u>		<u>\$54 billion Cap - CBO Baseline</u>	
	Admin. Baseline	CBO Baseline	Admin. Baseline	CBO Baseline
DSH Savings ¹	-38.1	-24.1	-38.1	-24.1
Per Capita Cap Savings ^{2,3}	-15.4	-88.6	41.8	-30.8
Total Savings	-53.6	-112.7	3.7	-55.0
Growth of Index Used in Policy ⁴	4.9%	4.9%	6.5%	6.5%
<u>A Comparison of Projected 7-Year (FYs 1996-2002) Growth Rates:</u>				
Medicaid Current Law Per Capita ²	5.6%	7.5%		
Republican Medicaid Plan Per Capita ⁵	N/A	1.4%		
Medicare Current Law Per Capita	7.6%	8.2%		
Republican Medicare Plan Per Capita ⁵	N/A	4.9%		
Private Health Insurance Per Capita	7.6%	7.1%		
Nominal GDP Per Capita	4.6%	4.1%		

¹DSH savings assume 33% reduction from actual FY 95 spending in each state. Future growth is linked to growth in nominal GDP.

²Per capita cap includes spending for benefits and administration. Medicaid current law growth rate is for benefits and administration.

³If the growth rate under a cap is higher than current law, the model shows the policy as a cost. However, it is unlikely that states, under a per capita cap, would increase spending beyond current law levels.

⁴The growth index is based on growth in nominal GDP per capita, with adjustments to allow for a transition and to meet budgetary targets.

⁵Per capita growth rates for Republican Medicaid & Medicare plans are calculated from the Budget Resolution.

Medicaid Reform, Assumptions for Administration's Plan, FYs 1996-2002
Assumes OMB Assumptions for Administration Baseline & CBO Assumptions for CBO Baseline
(billions \$)

3

Private Health Insurance Growth Less 1.5 Percentage Points

	Administration	CBO
DSH Savings ¹	-38.1	-24.1
Per Capita Cap Savings ^{2,3}	21.0	-24.2
Total Savings	-17.1	-48.3
Growth of Index Used in Policy ⁴	6.1%	5.6%

A Comparison of Projected 7-Year (FYs 1996-2002) Growth Rates:

Private Health Insurance (PHI) ⁵	7.6%	7.1%
PHI Less 1.5 Percentage Points	6.1%	5.6%
Medicaid Current Law Per Capita ¹	5.6%	7.5%
Republican Medicaid Plan Per Capita ⁴	N/A	1.4%
Medicare Current Law Per Capita	7.6%	8.2%
Republican Medicare Plan Per Capita ⁶	N/A	4.9%
Nominal GDP Per Capita	4.6%	4.1%

¹DSH savings assume 33% reduction from actual FY 95 spending in each state. Future growth is linked to growth in nominal GDP.

²Per capita cap includes spending for benefits and administration. Medicaid current law growth rate is for benefits and administration.

³If the growth rate under a cap is higher than current law, the model shows the policy as a cost. However, it is unlikely that states, under a per capita cap, would increase spending beyond current law levels.

⁴The growth index is based on growth in nominal GDP per capita, with adjustments to allow for a transition and to meet budgetary targets.

⁵Estimate of growth in per capita private health spending is based on CBO & OACT projections.

⁶Per capita growth rates for Republican Medicaid & Medicare plans are calculated from the Budget Resolution.

ID:

OCT 26 '95

9:25 No. 001 P. 04

Medicaid Reform, Assume President's Plan, FYs 1996-2002
Assumes OMB Assumptions for Administration Baseline & CBO Assumptions for CBO Baseline
(billions \$)

4

\$54 Billion Cap

	Admin. Baseline	CBO Baseline
DSH Savings ¹	-38.1	-24.1
Per Capita Cap Savings ^{2,3}	-15.5	-30.2
Total Savings	-53.6	-54.3
Growth of Index Used in Policy ⁴	4.6%	4.7%

A Comparison of Projected 7-Year (FYs 1996-2002) Growth Rates:

Medicaid Current Law Per Capita ²	5.6%	7.5%
Republican Medicaid Plan Per Capita ⁵	N/A	1.4%
Medicare Current Law Per Capita	7.6%	8.2%
Republican Medicare Plan Per Capita ⁵	N/A	4.9%
Private Health Insurance Per Capita	7.6%	7.1%
Nominal GDP Per Capita	4.6%	4.1%

¹DSH savings assume 33% reduction from actual FY 95 spending in each state. Future growth is linked to growth in nominal GDP.

²Per capita cap includes spending for benefits and administration. Medicaid current law growth rate is for benefits and administration.

³If the growth rate under a cap is higher than current law, the model shows the policy as a cost. However, it is unlikely that states, under a per capita cap, would increase spending beyond current law levels.

⁴The growth index is based on growth in nominal GDP per capita, with adjustments to allow for a transition and to meet budgetary targets.

⁵Per capita growth rates for Republican Medicaid & Medicare plans are calculated from the Budget Resolution.

Major Medicaid Assumptions

5

	OMB	CBO
Estimation Methodology	National, average per capita of total expenditures.	National average per capita, by recipient group.
Leakage	1/3rd of savings is "lost".	1/3rd of savings is "lost".
Projected (FYs 1996-2000) Growth in Nominal GDP Per Capita	4.6%	4.1%
Projected (FYs 1996-2000) Growth in Private Health Insurance	7.6%	7.1%

October 25, 1995 (11:29am)

ID:

OCT 26 '95 9:25 No.001 P.06

Medicaid Reform, Assumes President's Plan, FYs 1996-2002
Assumes Cap With 33% Leakage
 (billions \$)

	<u>\$54 Billion Cap - Administration Baseline</u>		<u>\$54 billion Cap - CBO Baseline</u>	
	Admin. Baseline	CBO Baseline	Admin. Baseline	CBO Baseline
DSH Savings	-38.1	-24.1	-38.1	-24.1
Per Capita Cap Savings	-15.5	-64.4	26.6	-30.8
Total Savings	-53.6	-88.5	-11.5	-54.9
Growth of Index Used in Policy	4.6%	4.6%	6.2%	6.2%

A Comparison of Projected 7-Year (FYs 1996-2002) Growth Rates:

Medicaid Current Law Per Capita	5.6%	7.5%
Republican Medicaid Plan Per Capita	N/A	1.4%
Medicare Current Law Per Capita	7.6%	8.2%
Republican Medicare Plan Per Capita	N/A	4.9%
Private Health Insurance Per Capita	7.6%	7.1%
Nominal GDP Per Capita	4.6%	4.1%

DSH savings assume 33% reduction from actual FY 95 spending in each state. Future growth is linked to growth in nominal GDP.
 Per capita cap includes spending for benefits and administration. Medicaid current law growth rate is for benefits and administration.
 The growth index is based on growth in nominal GDP per capita, with adjustments to allow for a transition and to meet budgetary targets.
 Per capita growth rates for Republican Medicaid & Medicare plans are calculated from the Budget Resolution.

DRAFT

Change in Federal Medicaid Spending, 1996-2002

Cap on Spending per Beneficiary @ GDP/capita +x% beginning in 1996

Separate Caps by Group, no downward adjustment

Cap not applied in 1996

	Baseline	Nominal GDP(plus 2%,1%,0%)			Nominal GDP (plus 3%,2%,1%,0%)		
	Total Spending	Total	Change in Total (millions) percent		Total	Change in Total (millions) percent	
Total	954,920	918,510	(36,410) -5.7%		930,103	(24,817) -3.9%	
Alabama	13,404	12,993	(412) -4.6%		13,016	(260) -2.9%	
Alaska	1,844	1,741	(103) -8.3%		1,730	(77) -6.2%	
Arizona	14,333	13,880	(452) -4.7%		13,930	(270) -2.8%	
Arkansas	9,789	9,579	(210) -3.2%		9,633	(105) -1.6%	
California	82,820	80,541	(2,279) -4.1%		80,743	(1,392) -2.5%	
Colorado	7,210	7,059	(151) -3.1%		7,089	(81) -1.7%	
Connecticut	13,717	13,238	(479) -5.2%		13,277	(294) -3.2%	
Delaware	1,763	1,703	(60) -5.1%		1,708	(36) -3.1%	
District of Columbia	4,816	4,605	(210) -6.5%		4,601	(144) -4.5%	
Florida	41,258	39,099	(2,159) -7.8%		38,928	(1,561) -5.6%	
Georgia	27,933	26,868	(1,065) -5.7%		26,879	(706) -3.8%	
Hawaii	2,900	2,751	(149) -7.7%		2,740	(107) -5.5%	
Idaho	2,712	2,650	(61) -3.4%		2,667	(30) -1.7%	
Illinois	34,166	32,638	(1,528) -6.7%		32,597	(1,052) -4.6%	
Indiana	21,758	20,892	(866) -5.9%		20,898	(576) -3.9%	
Iowa	7,864	7,638	(226) -4.3%		7,672	(129) -2.4%	
Kansas	6,214	6,102	(112) -2.7%		6,141	(49) -1.2%	
Kentucky	16,133	15,684	(449) -4.2%		15,746	(260) -2.4%	
Louisiana	37,831	35,376	(2,456) -9.7%		34,840	(2,004) -7.9%	
Maine	6,383	6,146	(238) -5.6%		6,151	(155) -3.6%	
Maryland	14,069	13,473	(596) -6.3%		13,467	(403) -4.3%	
Massachusetts	27,868	26,409	(1,459) -7.8%		26,256	(1,080) -5.8%	
Michigan	33,332	32,334	(998) -4.5%		32,451	(590) -2.6%	
Minnesota	16,132	15,382	(750) -6.9%		15,369	(511) -4.7%	
Mississippi	12,451	12,079	(372) -4.5%		12,104	(232) -2.8%	
Missouri	16,930	16,353	(577) -5.1%		16,371	(375) -3.3%	
Montana	3,043	2,992	(50) -2.5%		3,011	(21) -1.0%	
Nebraska	4,254	4,151	(103) -3.6%		4,175	(53) -1.8%	
Nevada	2,415	2,366	(49) -3.1%		2,376	(26) -1.6%	
New Hampshire	4,378	4,251	(127) -4.3%		4,251	(85) -2.9%	
New Jersey	25,732	25,008	(724) -4.2%		25,095	(427) -2.5%	
New Mexico	6,121	5,982	(138) -3.4%		6,007	(76) -1.9%	
New York	120,164	116,044	(4,120) -5.1%		116,235	(2,632) -3.3%	
North Carolina	28,008	28,008	(0) -0.0%		28,008	(0) -0.0%	
North Dakota	2,235	2,181	(54) -3.6%		2,196	(26) -1.8%	
Ohio	40,356	38,705	(1,651) -6.1%		38,741	(1,083) -4.0%	
Oklahoma	8,322	8,130	(192) -3.4%		8,168	(104) -1.9%	
Oregon	9,399	8,959	(440) -7.0%		8,941	(307) -4.9%	
Pennsylvania	42,394	41,081	(1,313) -4.6%		41,220	(786) -2.8%	
Rhode Island	5,072	4,880	(192) -5.7%		4,887	(124) -3.6%	
South Carolina	16,046	15,701	(345) -3.2%		15,769	(185) -1.7%	
South Dakota	2,296	2,229	(67) -4.4%		2,240	(38) -2.5%	
Tennessee	21,463	20,675	(788) -5.5%		20,702	(510) -3.5%	
Texas	71,882	67,015	(4,867) -10.1%		66,031	(3,920) -8.1%	
Utah	4,701	4,599	(102) -3.2%		4,624	(52) -1.6%	
Vermont	2,138	2,025	(113) -7.9%		2,014	(83) -5.8%	
Virginia	11,205	10,885	(320) -4.3%		10,929	(185) -2.5%	
Washington	17,158	16,693	(465) -4.0%		16,749	(274) -2.4%	
West Virginia	13,401	12,726	(675) -7.5%		12,679	(484) -5.4%	
Wisconsin	15,822	14,747	(1,075) -10.1%		14,555	(849) -8.0%	
Wyoming	1,285	1,264	(22) -2.5%		1,272	(9) -1.0%	

Includes administrative costs and QMSs (not able to break out).

13-Oct-95

Medicare Baseline

**PHOTOCOPY
PRESERVATION**

NAM / Mark Miller / John Richardson - FGE

DRAFTDifferences Between CBO and OACT Pricing of Daschle Bill

A caveat in comparing CBO and OACT pricing of the Daschle bill is how interactions among proposals are treated. CBO builds the interactions among proposals into specific proposals. In contrast, OACT prices each proposal independently and shows the interactions among proposals as a separate line. This is primarily a problem with hospital PPS proposals, particularly medical education. The Part A interaction is \$1.4 billion and the interaction among physician proposals is small at \$0.1 billion.

Pl. look
at last
page to
see why
I'm concerned

There are some large differences between CBO and OACT pricing specific proposals.

- (1) PPS Update: While there are differences between CBO and the Administration in market basket projections, they seem too small to account for the \$2 billion difference.
- (2) PPS Exempt Update: The \$3.1 billion difference reflects that CBO did not include any effects of rebasing and extension of the market basket reduction to all PPS exempt hospitals.
- (3) IME: These differences are driven by fundamentally different baselines for IME. In FY 1996, the CBO baseline is about \$1.1 billion lower than the OACT baseline and the difference increases to more than \$3 billion in FY 2002. CBO assumes 1 percent resident to bed growth between FY 1996 and FY 2002 (resident growth partially offset by bed declines) while OACT assumes no bed decreases and resident growth of 2-3 percent per year.
- (4) Capital: The OACT numbers seem to have been priced from a baseline later than President's budget and should decrease somewhat when priced under the latter. There is an issue of pricing based on a 15 percent reduction from a projection of actuals rather than from a projection of what costs would have been under the method of paying for capital prior to implementation of PPS for capital.
- (5) Transfers: CBO used the OACT savings estimate, but applied a 25 percent behavior offset to it.
- (6) IME/GME Slot Freeze: The differences appear to be driven the differences in baseline between CBO and OACT.
- (7) Outliers: Not clear why there is a \$0.8 billion difference.
- (8) SNE: Despite having a 9 percent higher baseline over the 7-years, CBO scores less savings than OACT. A good portion of the difference in SNF pricing might be accounted for with different behavioral offset assumptions. OACT uses a 5 percent offset while CBO uses a 25 percent offset.

- (9) Home Health: It is difficult to understand why CBO scores so much less savings than OACT for the five HH proposals despite having a 19 percent higher baseline over the 7-years. While the components of the CBO estimate are not separately identified, CBO previously priced extension of the savings from the HH temporary freeze in the President's budget at about \$3 billion. Thus, the pricing differences are even larger for the other four proposals combined.
- (10) Physicians: The larger CBO savings seem to result from the higher baseline projections. Higher volume/intensity in the baseline results in bigger reductions in future updates and thus generate larger savings.
- (11) Physician Overhead Payments: It appears that CBO did not price the provision.
- (12) Oxygen/DME: The source of the pricing difference is not clear.
- (13) MSP Extenders: Not clear why there is a \$1.8 billion difference in pricing the MSP extenders.
- (14) MSP Insurer Reporting/Court Case: Not clear why this provision appears not to be priced by CBO.
- (15) Managed Care: The figures in the table combine all the provisions relating to managed care. For CBO pricing, the total reflects the Managed Care proposal and Offset for Removing Medical Education and DSH from the AAPCC. For OACT, the total reflects Part A Managed Care, Part A Managed Care Interactions, and Part B Managed Care Interactions.
- (16) Fraud and Abuse: CBO scored the general fraud and abuse provisions at \$2.7 billion. This scoring is separate from pricing for specific proposals which explicitly save money (e.g., reductions in payment for oxygen). OACT did not score the general provisions on fraud and abuse, though OMB might score these proposals for the Administration.

Differences Between CBO and OACT Pricing
7-Year Totals (in billions)

<u>Provision</u>	<u>OACT</u>	<u>CBO</u>	<u>Difference</u>
PPS Update	\$15.4	\$13.4	\$2.0
PPS Exempt Update	3.6	0.5	3.1
IME	10.0	6.2	3.8
Capital	11.0	9.0	2.0
Transfers	7.4	5.7	1.7
IME/GME Freeze Slots	6.5	3.1	3.4
Outliers	4.4	3.6	0.8
SNF	8.5	6.3	1.8
Home Health	13.3	9.1	4.2
Physician (Freeze + Bias)	8.4	11.0	-2.6
Physician Overhead	0.6	0.0	0.6
Oxygen/DME	3.0	1.1	1.9
Managed Care	-3.0	13.2	-16.2
MSP Extenders	7.7	5.9	1.8
MSP Insuror Reporting/Court Case	3.3	0.0	3.3
Fraud & Abuse	0.0	2.7	-2.7
Net			8.9

Note: Pricing of other provisions also differ by small amounts.

NOV-07-1995 15:08

OLIGA

202 690 8168 P.02

Republican Medicare Proposals - Savings 1996-2002
(Dollars in billions, fiscal years)

	OACT/OMB	CBO	Estimates of CBO Scoring	CBO Total
PART A PROPOSALS				
Hospitals				
Reduce Hospital PPS Update /a	17.1	14.4		14.4
Extend PPS Capital Reduction from OBRA 1990	9.3	6.9		6.9
Reduce PPS-Exempt Update w/ Rebasing /b	2.8	0.5		0.5
Reduce PPS-Exempt Capital Payments	1.0	1.5		1.5
Monetarium on Long-Term Care Hospitals	0.8	0.7		0.7
Expand Centers of Excellence	0.2	0.2		0.2
Lower IME to 6.0% (1/1/96)	9.6	6.2		6.2
GME Reform	4.5	1.4		5.7
Reduce Medicare DSH by 10%	3.4		1.5	1.5
Eliminate Add-Ons for Outliers	4.4	4.1		4.1
PPS Redefined Discharges	7.4	5.7		5.7
SCH Rebasing (w/ hold-harmless)	-0.3		-0.3	-0.3
RPCH expansion	-0.2	-0.3		-0.3
Home Health				
HH Freeze Extension	2.5			
HH Interim System	4.0			
HH PPS	4.7			
HH Location of Service	0.6			
Eliminate HH PIP	1.2			
Home Health Total	13.0	9.1		9.1
Skilled Nursing Facilities				
SNF Freeze Extension	2.0			
Interim SNF PPS	2.3			
Full SNF PPS (0%)	3.1			
SNF Total	7.5	6.3		6.3
Therapy Guidelines	0.9		0.9	0.9
HMOs				
Remove GME, IME, and DSH from AAPCC /c	2.3		2.0	2.0
Medicare Secondary Payer (Part A)				
Insurer Reporting and Court Case Fix	1.8		1.0	1.0
MSP Extenders	5.2	3.5		3.5
Fraud and abuse /c	1.1	1.6		1.6
Part A Interactions	-2.3		0.0	0.0
TOTAL PART A	60.2	61.9	5.1	71.3

	OMB	CBO	Est. of CBO scoring	CBO Total
PART B PROPOSALS				
Physicians				
Freeze 98 MD update, except PC	1.2			
MYPS Bias	6.2			
Total		11.0		11.0
Single Fee For Surgery	0.9	0.9		0.9
Reduce Overhead Payments	0.8		0.8	0.8
Incentives for In-hospital MD Services	2.6	3.5		3.5
Interaction among physician proposals	-0.1	0.0		0.0
Hospital Outpatient Departments				
FDO/Colinsurance/PPS	0.0	0.0		0.0
Extend OBRA93	1.9	1.4		1.4
HMOs				
Impose floors & ceilings	1.2		1.0	1.0
Medicare Secondary Payer (Part B)				
Insurer Reporting and Court Case Fix	1.4		1.0	1.0
MSP Extenders	2.5	2.4		2.4
Fraud and abuse fix	0.3	1.1		1.1
Other Providers				
Comp. Bidding for Labs (15%)	2.9		2.5	2.5
Comp. Bidding for Part B Services (15%)	1.3		1.0	1.0
Profile Lab Tests	1.3		1.0	1.0
Oxygen 40% cut	2.3		1.5	1.5
Expand Centers of Excellence	0.2		Included in Part A	
Therapy Guidelines	0.6		0.5	0.5
Reduce ASC update: CPT-2 (95-02)	0.6	0.9		0.9
ICL Payment Reduction	0.1		0.1	0.1
Part B Premium	16.4		21.5	21.5
Part B Premium Offset	-6.2		-7.6	-7.6
TOTAL PART B	38.2	21.1	23.1	44.3
New Benefits				
Waive Mammography Costsharing	-0.4	-1.1		-1.1
Respite Care	-3.1		-5.0	-5.0
Total Cost of New Benefits	-3.5	-1.1	-5.0	-8.1
SAVINGS FROM TOTAL PACKAGE	124.8	81.9	23.2	109.5

a/ PPS hospital update: FY97-02: MB-1

b/ PPS-hospital policy: Rebasing: FY98-02: MB-1

c/ Fraud and abuse split between Part A (60%) and Part B (40%)

d/ Very rough estimate of a proposal that CBO has not scored as a free-standing proposal

NOTE: The CBO Scoring used may not match the proposal exactly.

Clinton Presidential Records Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: Medicare -- Hospitals

**SENATE FINANCE COMMITTEE MEDICARE PROPOSAL
PROJECTION OF LOST MEDICARE REVENUE
FOR TYPICAL HOSPITALS**

Reflects seven-year cumulative losses (1996-2002) per hospital

HOSPITAL TYPE	ESTIMATED MEDICARE REVENUE LOSS PER HOSPITAL (7-YR CUMULATIVE LOSS 1996-2002)
Typical Hospital	\$17 million
Typical Urban Hospital	\$25 million
Typical Rural Hospital	\$5 million
Typical 50-Bed Hospital	\$3 million
Typical 150-Bed Hospital	\$12 million
Typical 250-Bed Hospital	\$26 million
Typical 450 Bed Hospital	\$60 million
Typical Teaching Hospital	\$45 million

Source: American Hospital Association 10/6/95

Medicare Hospital File
and Notebook

Profile of Rural Community Hospitals

	<u>Mean</u>
Beds set up & staffed	93
FTE employees	265
Total Expense (millions)	\$14.7
Total Discharges	2133
Medicare Discharges (as a percent of total)	44.0%
Medicaid Discharges (as a percent of total)	15.8%

Figures are based on data from 2,525 U.S. rural community hospitals on AHA's 1993 Annual Survey of Hospitals

Tem

**SENATE FINANCE COMMITTEE MEDICARE PROPOSAL
PROJECTION OF LOST MEDICARE REVENUE
FOR TYPICAL HOSPITALS**

Reflects seven-year cumulative losses (1996-2002) per hospital

HOSPITAL TYPE	ESTIMATED MEDICARE REVENUE LOSS PER HOSPITAL (7-YR CUMULATIVE LOSS 1996-2002)
Typical Hospital	\$17 million
Typical Urban Hospital	\$25 million
Typical Rural Hospital	\$5 million
Typical 50-Bed Hospital	\$3 million
Typical 150-Bed Hospital	\$12 million
Typical 250-Bed Hospital	\$26 million
Typical 450 Bed Hospital	\$60 million
Typical Teaching Hospital	\$45 million

Source: American Hospital Association 10/6/95

Profile of Rural Community Hospitals

	<u>Mean</u>
Beds set up & staffed	93
FTE employees	265
Total Expense (millions)	\$14.7
Total Discharges	2133
Medicare Discharges (as a percent of total)	44.0%
Medicaid Discharges (as a percent of total)	15.8%

Figures are based on data from 2,525 U.S. rural community hospitals on AHA's 1993 Annual Survey of Hospitals

**SENATE FINANCE COMMITTEE MEDICARE PROPOSAL
PROJECTION OF LOST MEDICARE REVENUE
FOR TYPICAL HOSPITALS**

Reflects seven-year cumulative losses (1996-2002) per hospital

HOSPITAL TYPE	ESTIMATED MEDICARE REVENUE LOSS PER HOSPITAL (7-YR CUMULATIVE LOSS 1996-2002)
Typical Hospital	\$17 million
Typical Urban Hospital	\$25 million
Typical Rural Hospital	\$5 million
Typical 50-Bed Hospital	\$3 million
Typical 150-Bed Hospital	\$12 million
Typical 250-Bed Hospital	\$26 million
Typical 450 Bed Hospital	\$60 million
Typical Teaching Hospital	\$45 million

Source: American Hospital Association 10/6/95

Profile of Rural Community Hospitals

	<u>Mean</u>
Beds set up & staffed	93
FTE employees	265
Total Expense (millions)	\$14.7
Total Discharges	2133
Medicare Discharges (as a percent of total)	44.0%
Medicaid Discharges (as a percent of total)	15.8%

Figures are based on data from 2,525 U.S. rural community hospitals on AHA's 1993 Annual Survey of Hospitals

Clinton Presidential Records Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: Trust Fund



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care Financing Administration

The Administrator
Washington, D.C. 20201

October 11, 1995

The Honorable Sam Gibbons
Ranking Member,
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Gibbons:

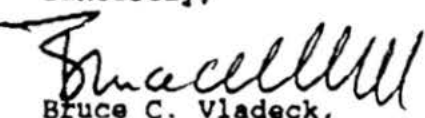
I am writing in response to your request for information on the combined impact on the Medicare Hospital Insurance (HI) Trust Fund of the Republican Medicare proposals in H.R. 2425 together with the repeal of the Social Security tax provision in the Omnibus Budget Reconciliation Act of 1993 (OBRA'93).

The OBRA'93 provision increased the portion of Social Security subject to Federal income tax and allocated this revenue to the Medicare HI Trust Fund. The repeal of this OBRA'93 provision would decrease HI Trust Fund revenues.

The cumulative effect of the Medicare Part A HI reductions included in H.R. 2425 for FY 1996 - FY 2002, offset by the cost of repealing the OBRA'93 provision, would reduce Part A expenditures by approximately \$93.4 billion. Based on estimates from the Health Care Financing Administration's actuaries, the resulting year-by-year "net" Medicare Part A savings would extend the life of the HI Trust Fund through the third quarter of calendar year 2006. This estimate is based on the intermediate set of assumptions in the 1995 Trustees Report.

Please let me know if I can provide any further information.

Sincerely,


Bruce C. Vladeck,
Administrator

Attachment

Medicare Part A "Net" Savings Estimates
Net Effect of HR 2425 Medicare Part A Savers and Repeal of OBRA '93 Provision¹

Year	Medicare Part A Savings	Repeal of OBRA '93 Provision ¹	Net Reduction in Part A Spending
1996	-\$3	\$2.9	-\$0.1
1997	-\$7	\$4.3	-\$2.7
1998	-\$14	\$4.9	-\$9.1
1999	-\$20	\$5.3	-\$14.7
2000	-\$24	\$5.8	-\$18.2
2001	-\$29	\$6.4*	-\$22.6
2002	-\$33	\$7.0*	-\$26.0
Total	-\$130	\$36.6	-\$93.4

Based on CBO estimates 10/2/95

*HHS projections based on CBO estimates for the years 2001-2002 for repeal of OBRA 93 provision

1. The OBRA '93 Social Security tax provision increased the portion of Social Security subject to Federal income tax and allocated this revenue to the Medicare HI Trust Fund. The repeal of this provision would decrease HI revenues.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care Financing Administration

The Administrator
Washington, D.C. 20201

October 11, 1995

The Honorable Sam Gibbons
Ranking Member,
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Gibbons:

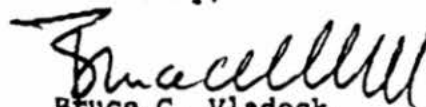
I am writing in response to your request for information on the combined impact on the Medicare Hospital Insurance (HI) Trust Fund of the Republican Medicare proposals in H.R. 2425 together with the repeal of the Social Security tax provision in the Omnibus Budget Reconciliation Act of 1993 (OBRA '93).

The OBRA '93 provision increased the portion of Social Security subject to Federal income tax and allocated this revenue to the Medicare HI Trust Fund. The repeal of this OBRA '93 provision would decrease HI Trust Fund revenues.

The cumulative effect of the Medicare Part A HI reductions included in H.R. 2425 for FY 1996 - FY 2002, offset by the cost of repealing the OBRA '93 provision, would reduce Part A expenditures by approximately \$93.4 billion. Based on estimates from the Health Care Financing Administration's actuaries, the resulting year-by-year "net" Medicare Part A savings would extend the life of the HI Trust Fund through the third quarter of calendar year 2006. This estimate is based on the intermediate set of assumptions in the 1995 Trustees Report.

Please let me know if I can provide any further information.

Sincerely,


Bruce C. Vladeck,
Administrator

Attachment

Medicare Part A "Net" Savings Estimates
Net Effect of HR 2425 Medicare Part A Savers and Repeal of OBRA '93 Provision¹

Year	Medicare Part A Savings	Repeal of OBRA '93 Provision ¹	Net Reduction in Part A Spending
1996	-\$3	\$2.9	-\$0.1
1997	-\$7	\$4.3	-\$2.7
1998	-\$14	\$4.9	-\$9.1
1999	-\$20	\$5.3	-\$14.7
2000	-\$24	\$5.8	-\$18.2
2001	-\$29	\$6.4*	-\$22.6
2002	-\$33	\$7.0*	-\$26.0
Total	-\$130	\$36.6	-\$93.4

Based on CBO estimates 10/2/95

*HHS projections based on CBO estimates for the years 2001-2002 for repeal of OBRA 93 provision

1. The OBRA '93 Social Security tax provision increased the portion of Social Security subject to Federal income tax and allocated this revenue to the Medicare HI Trust Fund. The repeal of this provision would decrease HI revenues.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care Financing Administration

The Administrator
Washington, D.C. 20201

October 11, 1995

The Honorable Sam Gibbons
Ranking Member,
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Gibbons:

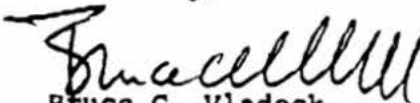
I am writing in response to your request for information on the combined impact on the Medicare Hospital Insurance (HI) Trust Fund of the Republican Medicare proposals in H.R. 2425 together with the repeal of the Social Security tax provision in the Omnibus Budget Reconciliation Act of 1993 (OBRA '93).

The OBRA '93 provision increased the portion of Social Security subject to Federal income tax and allocated this revenue to the Medicare HI Trust Fund. The repeal of this OBRA '93 provision would decrease HI Trust Fund revenues.

The cumulative effect of the Medicare Part A HI reductions included in H.R. 2425 for FY 1996 - FY 2002, offset by the cost of repealing the OBRA '93 provision, would reduce Part A expenditures by approximately \$93.4 billion. Based on estimates from the Health Care Financing Administration's actuaries, the resulting year-by-year "net" Medicare Part A savings would extend the life of the HI Trust Fund through the third quarter of calendar year 2006. This estimate is based on the intermediate set of assumptions in the 1995 Trustees Report.

Please let me know if I can provide any further information.

Sincerely,


Bruce C. Vladeck,
Administrator

Attachment

10-11-95 09:01 AM FROM OLGA

Medicare Part A "Net" Savings Estimates
Net Effect of HR 2425 Medicare Part A Savers and Repeal of OBRA '93 Provision¹

Year	Medicare Part A Savings	Repeal of OBRA '93 Provision ¹	Net Reduction in Part A Spending
1996	-\$3	\$2.9	-\$0.1
1997	-\$7	\$4.3	-\$2.7
1998	-\$14	\$4.9	-\$9.1
1999	-\$20	\$5.3	-\$14.7
2000	-\$24	\$5.8	-\$18.2
2001	-\$29	\$6.4*	-\$22.6
2002	-\$33	\$7.0*	-\$26.0
Total	-\$130	\$36.6	-\$93.4

Based on CBO estimates 10/2/95

*HHS projections based on CBO estimates for the years 2001-2002 for repeal of OBRA 93 provision

1. The OBRA '93 Social Security tax provision increased the portion of Social Security subject to Federal income tax and allocated this revenue to the Medicare HI Trust Fund. The repeal of this provision would decrease HI revenues.

Clinton Presidential Records Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: Balance Billing

Balance Billing (House)

Pl. put in House Republican
Proposed Notwithstanding and
put in a Balance Billing
File

Cleared
10/24/95
O/M/S

EXTRA BILLING PROTECTIONS FOR MEDICARE BENEFICIARIES

Comparison of current law and Revised House Republican Bill

Delivery System	Participating Physician	Non-Participating Physician	Hospitals and SNFs
CURRENT LAW			
FEE-FOR-SERVICE MEDICARE			
Before Deductible	YES	YES	YES
After Deductible	YES	YES	YES
RISK HMOs			
In-network services	YES	YES	YES
Authorized out-of-network services	YES	YES	YES
Emergency services	YES	YES	YES
UNDER HOUSE REPUBLICAN BILL			
HIGH DEDUCTIBLE or PRIVATE FEE-FOR-SERVICE PLAN under Medicare Plus System			
Before deductible met	NO	NO	NO
After deductible met	NO	NO	NO
HMO, POS, PSN or PPO under Medicare Plus System			
In-network services	YES	YES	YES
Authorized out-of-network services	NO	NO	NO
Emergency services	YES	YES	YES

NOTES:

"YES" means the beneficiary would have extra billing protection. "NO" means that the beneficiary would not have extra billing protection and indicates a reduction in beneficiary protection relative to current law.

Under both current law and the House Republican bill, beneficiaries in fee-for-service Medicare would be protected from extra billing by participating and non-participating physicians and certain other providers.

Under both current law and the House Republican bill, beneficiaries in network plans are not protected from extra billing for unauthorized out-of-network services.

Cleared
10/24/95
OMR

EXTRA BILLING PROTECTIONS FOR MEDICARE BENEFICIARIES

Comparison of current law and Revised House Republican Bill

Delivery System	Participating Physician	Non-Participating Physician	Hospitals and SNFs
CURRENT LAW			
FEE-FOR-SERVICE MEDICARE			
Before Deductible	YES	YES	YES
After Deductible	YES	YES	YES
RISK HMOs			
In-network services	YES	YES	YES
Authorized out-of-network services	YES	YES	YES
Emergency services	YES	YES	YES
UNDER HOUSE REPUBLICAN BILL			
HIGH DEDUCTIBLE or PRIVATE FEE-FOR-SERVICE PLAN under Medicare Plus System			
Before deductible met	NO	NO	NO
After deductible met	NO	NO	NO
HMO, POS, PSN or PPO under Medicare Plus System			
In-network services	YES	YES	YES
Authorized out-of-network services	NO	NO	NO
Emergency services	YES	YES	YES

NOTES:

"YES" means the beneficiary would have extra billing protection. "NO" means that the beneficiary would not have extra billing protection and indicates a reduction in beneficiary protection relative to current law.

Under both current law and the House Republican bill, beneficiaries in fee-for-service Medicare would be protected from extra billing by participating and non-participating physicians and certain other providers.

Under both current law and the House Republican bill, beneficiaries in network plans are not protected from extra billing for unauthorized out-of-network services.

Cleared
10/24/95
OMB

EXTRA BILLING PROTECTIONS FOR MEDICARE BENEFICIARIES

Comparison of current law and Revised House Republican Bill

Delivery System	Participating Physician	Non-Participating Physician	Hospitals and SNFs
CURRENT LAW			
FEE-FOR-SERVICE MEDICARE			
Before Deductible	YES	YES	YES
After Deductible	YES	YES	YES
RISK HMOs			
In-network services	YES	YES	YES
Authorized out-of-network services	YES	YES	YES
Emergency services	YES	YES	YES
UNDER HOUSE REPUBLICAN BILL			
HIGH DEDUCTIBLE or PRIVATE FEE-FOR-SERVICE PLAN under Medicare Plus System			
Before deductible met	NO	NO	NO
After deductible met	NO	NO	NO
HMO, POS, PSN or PPO under Medicare Plus System			
In-network services	YES	YES	YES
Authorized out-of-network services	NO	NO	NO
Emergency services	YES	YES	YES

NOTES:

"YES" means the beneficiary would have extra billing protection. "NO" means that the beneficiary would not have extra billing protection and indicates a reduction in beneficiary protection relative to current law.

Under both current law and the House Republican bill, beneficiaries in fee-for-service Medicare would be protected from extra billing by participating and non-participating physicians and certain other providers.

Under both current law and the House Republican bill, beneficiaries in network plans are not protected from extra billing for unauthorized out-of-network services.

Clinton Presidential Records Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: Baseline Issues

IN 1990s RECONCILIATION BILLS, CBO CONSISTENTLY OVERESTIMATED ACTUAL MEDICARE SPENDING

COMPARISON OF POST-OBRA 1990 AND POST-OBRA 1993 CBO MEDICARE BASELINES WITH ACTUAL SPENDING

CBO's estimates of Medicare program spending at the time that OBRA 1990 and OBRA 1993 were enacted have been consistently high. Actual spending (or in the case of OBRA 1993, more recent OMB estimates) has come in regularly below the projection made at the time of passage.

- For OBRA 1990, the average difference between the baseline projected in 1990 and actual spending in FY 1992 AND FY 1992 was \$700 million per year.
- For OBRA 1993, the projections made by CBO in 1993 exceeded actual spending (or more recent OMB estimates) in every year. The difference ranges from \$2.9 billion to \$6.2 billion. On average, the difference is \$4.2 billion per year.

For recent years, the overestimates have been about 2% to 4% per year. Over a seven-year period (as is the case with this year's reconciliation bill), this would translate into a \$35-\$60 billion overestimate.

CBO Baseline

Book/File

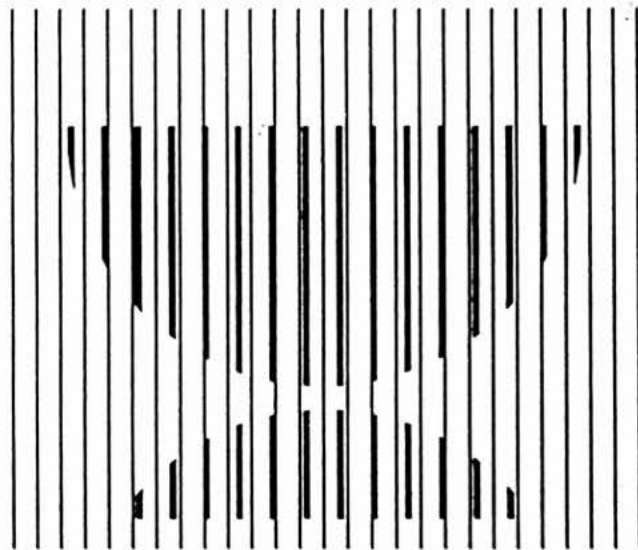
Comparison of Post-OBRA CBO Baselines with Actual Spending (dollars in millions)

	1991	1992	1993	1994	1995
CBO Baseline Pre-OBRA 1990	109,262	122,801			
OBRA 1990 Redcutions	4,350	6,805			
CBO Baseline Post-OBRA 1990	104,912	115,996			
Actual Spending (current est.)	102,000	116,200			
Actual - CBO Post-OBRA Baseline	-2,912	204			
CBO Baseline Pre-OBRA 1993			130,700	148,070	167,676
OBRA 1993 Reductions			0	2,570	7,076
CBO Baseline Post-OBRA 1993			130,700	145,500	160,600
Actual Spending			127,800	141,800	154,400
Actual - CBO Post-OBRA Baseline			-2,900	-3,700	-6,200

CBO STAFF MEMORANDUM

MEDICARE AND THE OMNIBUS BUDGET RECONCILIATION ACT OF 1990:
IMPACT ON ENROLLEES, HOSPITALS, AND PHYSICIANS

FEBRUARY 1991



THE CONGRESS OF THE UNITED STATES
CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

TABLE 1. TOTAL COSTS FOR HEALTH CARE UNDER MEDICARE (In calendar years, millions of dollars)

Year	Total Costs			Net Federal Costs a/			Enrollees' Costs b/		
	HI	SMI	Total	HI	SMI	Total	HI	SMI	Total
Projections Prior to Passage of OBRA-90									
1990	70,950	56,055	127,005	64,833	30,765	95,598	6,117	25,289	31,406
1991	78,099	64,107	142,206	71,602	37,660	109,262	6,497	26,447	32,944
1992	86,440	72,053	158,494	79,308	43,493	122,801	7,752	28,560	35,692
1993	95,253	81,398	176,652	87,502	50,436	137,938	7,752	30,963	38,714
1994	104,728	91,757	196,486	96,289	58,042	154,331	8,439	33,716	41,155
1995	114,708	103,414	218,122	105,546	66,683	172,229	9,162	36,731	45,893
Projections After Passage of OBRA-90									
1990 c/	70,455	55,960	126,415	64,338	30,670	95,008	6,117	25,289	31,406
1991	76,505	61,373	137,878	70,009	34,904	104,912	6,497	26,469	32,966
1992	83,367	68,208	151,575	76,364	39,632	115,996	7,003	28,576	35,579
1993	90,582	76,905	167,487	83,095	44,669	127,764	7,487	32,236	39,724
1994	99,705	86,621	186,326	91,582	50,459	142,041	8,123	36,162	44,285
1995	109,299	97,708	207,007	100,461	57,103	157,564	8,838	40,605	49,443
Percentage Change in Projections									
1990 c/	-0.7	-0.2	-0.5	-0.8	-0.3	-0.6	0.0	0.0	0.0
1991	-2.0	-4.3	-3.0	-2.2	-7.3	-4.0	0.0	0.1	0.1
1992	-3.6	-5.3	-4.4	-3.7	-8.9	-5.5	-1.8	0.1	-0.3
1993	-4.9	-5.5	-5.2	-5.0	-11.4	-7.4	-3.4	4.1	2.6
1994	-4.8	-5.6	-5.2	-4.9	-13.1	-8.0	-3.7	7.3	5.1
1995	-4.7	-5.5	-5.1	-4.8	-14.4	-8.5	-3.5	10.5	7.7
1991-95	-4.1	-5.3	-4.7	-4.3	-11.5	-6.9	-2.6	4.9	3.4

SOURCE: Congressional Budget Office.

NOTE: The estimates in the table are incurred amounts for calendar years under CBO's summer 1990 baseline. OBRA-90 refers to the Omnibus Budget Reconciliation Act of 1990.

- Federal reimbursements for HI and SMI services, minus SMI premium receipts.
- Copayment, balance-billing, and premium costs under Medicare.
- Under OBRA-90, the update to HI payment rates was delayed from October 1, 1990, until January 1, 1991. Payments to providers under the SMI program were reduced by 2 percent for services provided during November and December 1990.

TABLE 5-16.—CBO PROJECTIONS FOR MEDICARE PROGRAM COMPONENTS BASELINE
(Outlays by fiscal year, in billions of dollars)

	1993	1994	1995	1996	1997	1998	1999
Medicare Part A: Hospital Insurance (HI)							
HI outlays	\$91.6	\$102.0	\$111.8	\$120.8	\$131.4	\$143.1	\$156.9
Annual growth rate	11.3	9.6	8.1	8.8	8.9	9.7	
Hospitals	74.8	81.0	87.9	94.3	102.2	111.3	122.4
Annual growth rate	8.3	8.5	7.3	8.4	8.9	10.0	
PPS hospitals	64.8	69.2	74.5	78.5	83.8	90.1	98.1
Non-PPS hospitals/units	10.1	11.9	13.4	15.8	18.4	21.2	24.3
Hospice	1.0	1.1	1.3	1.5	1.8	2.1	2.4
Annual growth rate	18.5	16.0	16.4	16.8	15.9	16.4	
Home health	9.5	11.7	13.6	15.3	17.0	18.6	20.3
Annual growth rate	23.6	16.5	12.3	11.2	9.5	8.7	
Skilled nursing facilities	5.3	6.6	7.4	8.1	8.8	9.5	10.1
Annual growth rate	24.4	12.4	9.0	8.5	7.6	7.2	
Other part A (PROs)	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Annual growth rate	50.0	-33.3	0.0	0.0	0.0	0.0	
Administration (subject to appropriation)	0.9	1.2	1.3	1.3	1.4	1.4	1.5
Annual growth rate	38.8	5.3	4.8	4.6	4.4	4.3	
General part A information							
Indirect teaching payments	3.3	3.6	3.9	4.1	4.5	4.8	5.3
Direct medical education payments	1.7	1.7	1.8	1.9	2.0	2.2	2.3
Disproportionate share payments	3.0	3.3	3.5	3.8	4.1	4.4	4.8
Inpatient capital payments	7.7	8.5	9.4	10.3	11.2	12.3	13.4
HI trust fund income	97.1	106.6	118.6	125.9	131.7	138.1	143.8
HI trust fund surplus	5.5	4.6	6.8	5.1	0.3	-5.0	-13.1
HI trust fund balance (EOY)	126.1	130.7	137.5	142.5	142.8	137.8	124.7
Other part A information							
HI deductible (in CY dollars)	\$676	\$696	\$720	\$748	\$784	\$824	\$868
Part A FY enrollment (millions)	35.5	36.1	36.8	37.4	38.0	38.5	39.0
PPS market basket increase FY%	4.1	4.3	4.7	4.6	4.3	4.2	4.2
PPS update factor (average)	2.7	2.0	2.6	2.6	3.8	4.2	4.2
Monthly premium (in CY dollars)	\$221	\$245	\$262	\$276	\$295	\$317	\$340
Premium receipts (FY billions)	\$0.5	\$0.6	\$0.7	\$0.8	\$0.8	\$0.9	\$1.0
Medicare Part B: Supplementary Medical Insurance (SMI)							
Total SMI outlays	54.3	60.9	68.7	77.5	87.5	98.2	110.1
Annual growth rate	12.2	12.9	12.8	12.9	12.2	12.1	
Physicians	28.5	30.2	33.4	36.8	40.6	44.3	47.8
Annual growth rate	6.2	10.7	10.2	10.3	8.9	8.1	
DME and P & O suppliers	2.2	2.4	2.7	3.0	3.3	3.7	4.0
Annual growth rate	9.9	11.1	10.7	10.9	9.7	9.0	
Laboratories ¹	4.2	4.7	5.3	6.0	6.7	7.5	8.4
Annual growth rate	11.7	12.7	12.4	12.5	12.1	11.9	
Outpatient hospital	9.6	11.0	12.7	14.8	17.2	19.8	23.1
Annual growth rate	14.4	15.5	16.3	15.8	15.6	16.6	
Other part B	7.9	10.8	12.6	14.9	17.7	20.8	24.5
Annual growth rate	37.4	16.7	18.3	18.4	17.7	17.9	
Administration (subject to appropriation)	1.8	1.7	1.9	2.0	2.0	2.1	2.2
Annual growth rate	-10.2	12.6	4.9	4.6	4.3	4.3	
Other part B information							
SMI deductible (in dollars)	\$100	\$100	\$100	\$100	\$100	\$100	\$100
MEI update (calendar year)	2.2	2.3	2.9	2.8	2.7	2.6	2.5
Physician update (calendar year) ²	1.4	9.3	5.2	3.2	1.4	-2.4	-2.5
Laboratory update (calendar year)	3.0	0.0	0.0	3.0	3.0	3.1	3.1
DME update (calendar year)	3.1	2.7	2.9	2.9	3.1	3.1	3.1
Premium information							
Monthly premium (in dollars)	\$36.60	\$41.10	\$46.10	\$43.30	\$51.00	\$57.10	\$58.90
Premium receipts (in billions)	14.7	16.8	19.2	19.0	21.5	24.7	27.8
FY enrollment (in millions)	34.3	34.9	35.6	36.2	36.7	37.2	37.6
Total medicare disbursements	145.9	162.8	180.5	198.3	218.9	241.3	267.1
Total function 570—Medicare (disbursements net of premiums)	130.7	145.5	160.6	178.5	196.6	215.7	238.3

¹ Laboratory spending reflects services provided in physician offices, outpatient hospital departments and independent laboratories. In previous years the CBO fact sheet has shown spending for independent laboratories only.
² Based on the current volume performance standard, we assume an upward adjustment to the MEI in fiscal years 1995 and 1996, and a downward adjustment to the MEI in fiscal years 1997, 1998 and 1999.

Source: Congressional Budget Office.

Table 8.5—OUTLAYS FOR MANDATORY AND RELATED PROGRAMS: 1962–2000—Continued

(in billions of dollars)

Category and Program	1985	1986	1987	1988	1989	1990	1991	1992
Mandatory programs:								
Human resource programs:								
Education, training, employment, and social services	7.6	8.0	7.3	7.8	9.8	11.1	13.0	11.5
Health:								
Medicaid	22.7	25.0	27.4	30.5	34.6	41.1	52.5	67.8
Other	1.3	0.7	1.9	1.9	0.7	1.8	2.5	3.7
Total health	23.9	25.7	29.3	32.3	35.3	42.9	55.0	71.5
Medicare	64.1	68.4	73.4	76.9	82.7	95.8	102.0	116.2
Income security:								
General retirement and disability	5.2	4.9	5.1	4.9	5.2	4.7	4.4	5.0
Federal employee retirement and disability	38.5	41.3	43.7	46.8	49.1	51.9	56.0	57.5
Unemployment compensation	15.8	16.1	15.5	13.6	13.9	17.1	25.1	37.0
Food and nutrition assistance	16.7	16.6	16.9	17.8	18.8	21.3	25.7	29.5
Supplemental Security Income	8.7	9.3	9.9	11.4	11.5	11.5	14.7	17.9
Family Support Assistance	9.2	9.9	10.5	10.8	11.2	12.2	13.5	15.1
Earned Income Tax Credit	1.1	1.4	1.4	2.7	4.0	4.4	4.9	7.3
Housing Assistance and Other	13.9	0.9	1.4	1.2	0.7	0.4	0.2	-0.5
Total income security	109.1	100.5	104.4	109.2	114.4	123.6	144.6	168.8
Social Security	186.4	196.5	205.1	216.8	230.4	246.5	266.8	285.2
Veterans benefits and services:								
Income security for veterans	14.7	15.0	15.0	16.0	16.5	15.2	17.0	17.3
Other	1.2	0.6	0.7	1.6	1.2	0.7	0.3	1.2
Total veterans benefits and services	15.9	15.7	15.7	17.6	17.7	15.9	17.3	18.5
Total mandatory human resources programs	407.1	414.9	435.1	460.7	490.4	535.8	598.7	671.7
Other mandatory programs:								
International affairs	-1.2	-3.6	-1.7	-1.5	-1.0	-5.2	-3.8	-3.1
Energy	-0.9	-0.3	-0.4	-0.7	-2.2	-1.4	-2.0	-0.9
Agriculture	23.4	29.4	24.5	15.0	14.5	9.3	12.4	11.0
Deposit insurance	-2.2	1.5	3.1	10.0	22.0	58.1	66.0	2.6
Community and regional development	1.1	1.2	0.7	1.4	1.3	1.2	0.7	0.5
General government	4.9	5.3	0.2	1.4	0.7	1.7	1.3	2.0
Asset Sales (non-routine)			-7.7	-7.7	-7.1	-0.1		
Other undistributed offsetting receipts	-32.7	-33.0	-34.6	-37.0	-37.2	-36.6	-39.4	-39.3
All other	1.2	-0.1	1.1	5.5	2.8	3.9	-39.8	0.9
Total other mandatory programs	-6.4	0.4	-14.8	-13.4	-6.1	31.0	-4.6	-26.2
Total mandatory programs	400.7	415.2	420.3	447.2	484.2	566.8	594.1	645.5
Net interest:								
Interest on the public debt	178.9	190.3	195.3	214.1	240.9	264.7	285.5	292.3
Interest received by:								
On-budget trust funds	-21.8	-26.6	-29.6	-34.4	-40.5	-46.3	-50.4	-54.2
Off-budget trust funds	-4.1	-4.3	-5.3	-7.4	-11.4	-16.0	-20.2	-23.6
Other interest	-23.4	-23.3	-21.7	-20.4	-19.8	-18.2	-20.3	-15.1
Total net interest	129.5	136.0	138.7	151.8	169.3	184.2	194.5	199.4
Total outlays for mandatory and related programs	530.2	551.3	559.0	599.1	653.5	751.0	788.7	844.9

Table 8.5—OUTLAYS FOR MANDATORY AND RELATED PROGRAMS: 1962–2000—Continued

(in billions of dollars)

Category and Program	1993	1994	1995 estimate	1996 estimate	1997 estimate	1998 estimate	1999 estimate	2000 estimate
Mandatory programs:								
Human resource programs:								
Education, training, employment, and social services	13.8	9.0	15.9	14.9	13.8	13.6	14.5	15.2
Health:								
Medicaid	75.8	82.0	88.4	95.9	104.6	114.4	124.5	136.5
Other	4.0	4.6	4.0	4.8	4.5	5.1	5.3	5.3
Total health	79.8	86.6	92.5	100.7	109.1	119.6	129.9	141.8
Medicare	127.8	141.8	154.4	174.7	191.3	207.9	225.0	244.0
Income security:								
General retirement and disability	3.9	5.3	4.6	4.4	4.3	4.4	4.4	4.7
Federal employee retirement and disability	60.0	62.4	64.7	67.6	70.6	73.9	78.0	81.5
Unemployment compensation	35.5	26.4	21.5	23.2	23.0	23.6	24.4	25.1
Food and nutrition assistance	31.7	33.0	34.8	35.8	37.6	39.3	41.1	42.9
Supplemental Security Income	21.1	24.5	25.1	25.4	30.1	32.7	35.3	40.9
Family Support Assistance	15.6	16.5	17.3	17.9	18.7	19.5	20.3	21.2
Earned Income Tax Credit	8.8	10.9	16.8	20.2	22.2	23.2	24.4	25.4
Housing Assistance and Other	-0.6	-0.7	-0.8	-0.9	-1.2	-1.3	-1.4	-1.6
Total income security	176.0	178.4	183.9	193.6	205.3	215.4	226.4	239.9
Social Security	302.0	316.9	333.7	351.4	369.9	389.4	409.8	430.7
Veterans benefits and services:								
Income security for veterans	17.8	19.6	18.8	17.8	19.8	20.4	20.9	23.1
Other	1.6	0.7	1.4	1.2	1.1	1.1	1.0	1.0
Total veterans benefits and services	19.3	20.3	20.2	19.0	20.9	21.5	21.9	24.0
Total mandatory human resources programs	718.7	753.1	800.6	854.4	910.3	967.4	1,027.5	1,095.7
Other mandatory programs:								
International affairs	-4.3	-3.7	-3.4	-4.3	-4.7	-4.4	-4.4	-4.2
Energy	-1.2	-1.2	-2.0	-2.3	-2.9	-3.2	-3.1	-3.2
Agriculture	16.2	10.7	10.2	9.5	8.6	6.7	6.8	6.4
Deposit insurance	-28.0	-7.6	-12.3	-6.3	-1.4	1.2	-1.3	-3.5
Community and regional development	0.7	-0.4	*	0.1	0.2	-0.5	-0.4	-0.2
General government	1.5	-0.4	1.4	1.4	1.3	1.4	1.4	1.4
Asset Sales (non-routine)				-0.5	-3.7	-2.3	1.6	1.5
Other undistributed offsetting receipts	-37.4	-37.8	-41.4	-41.5	-38.7	-40.7	-41.0	-41.5
All other	1.3	-0.4	-2.3	-4.2	-2.5	-3.6	-5.3	-6.6
Total other mandatory programs	-51.2	-40.7	-49.8	-48.2	-43.7	-45.5	-45.6	-49.8
Total mandatory programs	667.4	712.4	750.9	806.2	866.6	921.9	981.8	1,045.9
Net interest:								
Interest on the public debt	292.5	296.3	333.7	364.0	383.4	403.6	425.7	446.5
Interest received by:								
On-budget trust funds	-55.5	-56.5	-57.9	-60.0	-61.9	-63.1	-64.3	-64.7
Off-budget trust funds	-26.8	-29.2	-33.6	-38.1	-42.6	-47.3	-52.5	-58.1
Other interest	-11.4	-7.6	-8.0	-8.9	-8.6	-10.2	-11.8	-13.8
Total net interest	198.8	203.0	234.2	257.0	270.4	282.9	297.1	309.9
Total outlays for mandatory and related programs	866.2	915.3	985.1	1,063.2	1,137.0	1,204.8	1,278.9	1,355.8

* \$50 million or less.



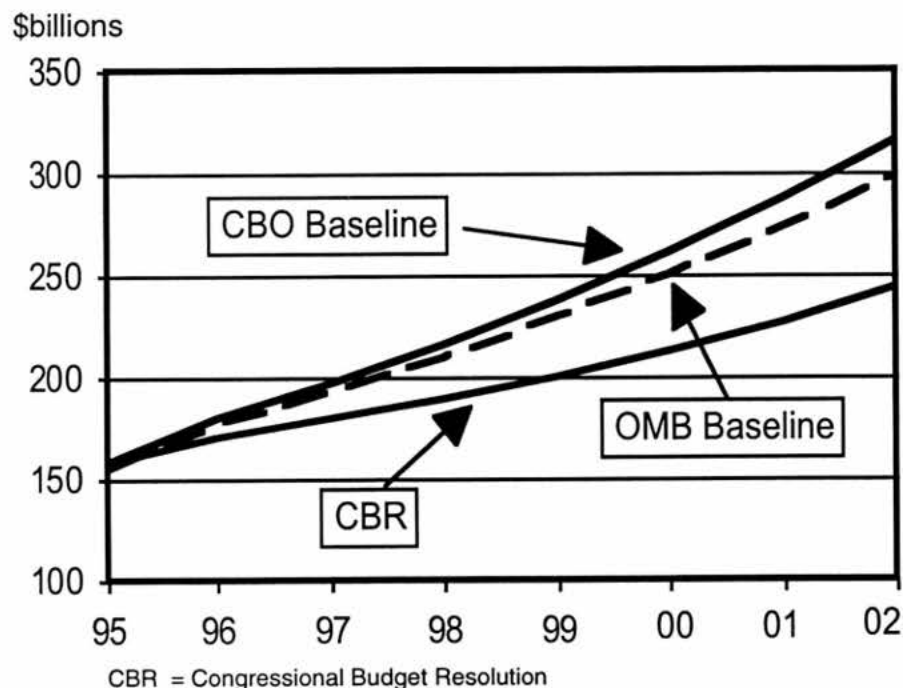
124 D 270

State

-Cap

hospital network

LOOK BACK / FAIL SAFE ENSURES BUDGET GOAL IS ACHIEVED



\$270 BILLION SAVINGS NEEDED FROM CBO BASELINE

Policy Options:

- \$205 billion savings from specific policy changes
- \$65 billion look back / fail safe; could meet by:
 - (1) 45% - 50% of beneficiaries moving to private health plans over 7 years; or
 - (2) OMB's baseline (\$65 billion lower over 7 years) proves more accurate than CBO's baseline; or
 - (3) A fail safe sequester is triggered in individual years; or
 - (4) As is most likely, a combination of (1), (2), and (3).

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Total</u>
CBO	158	179	198	216	237	261	287	315	
OMB	154	176	192	209	229	250	273	299	
CBR	158	171	180	189	200	212	227	244	
CBO - CBR		8	18	27	37	49	60	71	270
OMB - CBR		5	12	20	29	38	46	55	205



90 & 16

Flow on mechanism

ALHA → :

30



270

Senate Proposal: CBO Staff Estimates, 10/1 (from 9/29 staff estimates)

By fiscal year, in billions of dollars

1995 1996 1997 1998 1999 2000 2001 2002 Total

Subtitle A - Medicare Part A									
Provider Reimbursement Options									
PPS MB-2.5% thru 2002		-0.2	-1.3	-3.0	-4.8	-6.8	-8.9	-11.2	-36.1
Rebase Capital rates		-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-2.7
Reduce PPS capital by 15 percent		-1.0	-1.2	-1.3	-1.3	-1.4	-1.4	-1.5	-9.0
Reduce Disproportionate Share to 25%		-0.1	-0.3	-0.5	-0.7	-0.9	-0.9	-1.0	-4.5
Reduce IME to 6.7, 5.6, 4.5%		-0.4	-0.9	-1.5	-1.7	-1.7	-1.8	-1.9	-9.9
Change PPS-exempt payment ceilings and floors		0.0	-0.1	-0.2	-0.4	-0.5	-0.7	-0.7	-2.7
NonPPS MB-2.5% thru 2002		0.0	-0.1	-0.2	-0.3	-0.4	-0.5	-0.6	-2.0
Reduce NonPPS capital by 15%		-0.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-1.5
SNFs		-0.2	-0.6	-1.0	-1.4	-1.9	-2.3	-2.9	-10.4
Home health Prospective Payment/1		0.0	-1.4	-2.3	-2.8	-3.3	-3.7	-4.3	-17.8
Hospice (MB-2.5%)		0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5
Critical Access Hospitals, Extend MDH		0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.5
AAPCC Interaction with DSH, IME, GME/2		0.0	0.9	1.5	1.8	2.0	2.2	2.5	10.7
Total - Subtitle A		-2.4	-6.5	-9.1	-12.2	-15.5	-18.9	-22.2	-86.8
Medicare Parts A and B									
Medicare Second Payer		0.0	0.0	0.0	-1.3	-1.4	-1.6	-1.8	-6.0
Anti-fraud and abuse/4		-0.2	-0.3	-0.5	-0.6	-0.7	-0.8	-0.9	-4.1
Total - Parts A and B		-0.2	-0.3	-0.5	-1.9	-2.1	-2.4	-2.7	-10.0

Senate Proposal: CBO Staff Estimates, 10/1 (from 9/29 specs)

By fiscal year, in billions of dollars

	1995	1996	1997	1998	1999	2000	2001	2002	Total
FOOTNOTES: /1 Update assumed to be market basket -2.5 percentage points. /2 Reflects payments to facilities providing services to Medicare Choice beneficiaries. /3 No Medicaid offset taken on the assumption that the program will become a block grant. /4 Assumes that legislative language would meet scorekeeping requirements. NOTES: 1. These estimates assume an enactment date of November 15, 1995. The estimates would change if the proposal was enacted at a later date. 2. These estimates are based on preliminary specifications, not legislative language. 3. The estimates do not take into account the "BELT" budget control mechanism. 4. The effects of the medical savings account provision are embodied in the Medicare Choice line. Possible interactions between FEHBP and the MSA provision are not reflected in this estimate. 5. To the extent that health care providers are able to offset lower reimbursements by shifting costs to other payers, federal revenues could fall. 6. These estimates do not incorporate changes in discretionary spending for administration.									

Senate Proposal: CBO Staff Estimates, 10/1 (from 9/29 staff estimates)

By fiscal year, in billions of dollars

1995 1996 1997 1998 1999 2000 2001 2002 Total

Subtitle A - Medicare Part A									
Provider Reimbursement Options									
PPS MB-2.5% thru 2002		-0.2	-1.3	-3.0	-4.8	-6.8	-8.9	-11.2	-36.1
Rebase Capital rates		-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-2.7
Reduce PPS capital by 15 percent		-1.0	-1.2	-1.3	-1.3	-1.4	-1.4	-1.5	-9.0
Reduce Disproportionate Share to 25%		-0.1	-0.3	-0.5	-0.7	-0.9	-0.9	-1.0	-4.5
Reduce IME to 6.7, 5.6, 4.5%		-0.4	-0.9	-1.5	-1.7	-1.7	-1.8	-1.9	-9.9
Change PPS-exempt payment ceilings and floors		0.0	-0.1	-0.2	-0.4	-0.5	-0.7	-0.7	-2.7
NonPPS MB-2.5% thru 2002		0.0	-0.1	-0.2	-0.3	-0.4	-0.5	-0.6	-2.0
Reduce NonPPS capital by 15%		-0.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-1.5
SNFs		-0.2	-0.6	-1.0	-1.4	-1.9	-2.3	-2.9	-10.4
Home health Prospective Payment/1		0.0	-1.4	-2.3	-2.8	-3.3	-3.7	-4.3	-17.8
Hospice (MB-2.5%)		0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5
Critical Access Hospitals, Extend MDH		0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.5
AAPCC Interaction with DSH, IME, GME/2		0.0	0.9	1.5	1.8	2.0	2.2	2.5	10.7
Total - Subtitle A		-2.4	-6.5	-9.1	-12.2	-15.5	-18.9	-22.2	-86.8
Medicare Parts A and B									
Medicare Second Payer		0.0	0.0	0.0	-1.3	-1.4	-1.6	-1.8	-6.0
Anti-fraud and abuse/4		-0.2	-0.3	-0.5	-0.6	-0.7	-0.8	-0.9	-4.1
Total - Parts A and B		-0.2	-0.3	-0.5	-1.9	-2.1	-2.4	-2.7	-10.0

By fiscal year, in billions of dollars

1995

1996

1997

1998

1999

2000

2001

2002

Total

/1 Update assumed to be market basket -2.5 percentage points.
/2 Reflects payments to facilities providing services to Medicare Choice beneficiaries.
/3 No Medicaid offset taken on the assumption that the program will become a block grant.
/4 Assumes that legislative language would meet scorekeeping requirements.

1. These estimates assume an enactment date of November 15, 1995. The estimates would change if the proposal was enacted at a later date.
2. These estimates are based on preliminary specifications, not legislative language.
3. The estimates do not take into account the "BELT" budget control mechanism.
4. The effects of the medical savings account provision are embodied in the Medicare Choice line. Possible interactions between FEHBP and the MSA provision are not reflected in this estimate.
5. To the extent that health care providers are able to offset lower reimbursements by shifting costs to other payers, federal revenues could fall.
6. These estimates do not incorporate changes in discretionary spending for administration.

LEAKED CBO ANALYSIS PROVES REPUBLICAN MEDICARE PLAN WOULD MAKE BENEFICIARIES PAY MORE/GET LESS

Price Controls, Not Republicans' Managed Care, Produce Savings

Senate Republicans are claiming \$48 billion in savings from their Medicare Choice proposal. A September 27th leaked memo from the Congressional Budget Office (CBO) confirms that the savings from the Senate Republican plan comes from price controls -- caps on Medicare payments for managed care set 31 percent below private sector growth rates. Therefore, the benefits these plans provide would have to be reduced over time. Simply put, beneficiaries in these plans would have to pay more (in premiums) or get less (in covered services).

Medical Savings Accounts Increases Medicare Costs

CBO confirms that Medical Savings Accounts (MSAs) don't save money; they cost money. CBO says MSAs "would cost about \$2.3 billion as a result of adverse selection" -- approximately \$1,000 per person per year for each MSA enrollee. This means that CBO projects that only a few healthy, wealthy beneficiaries will opt for this high deductible option, leaving less healthy and more expensive beneficiaries in the traditional plan.

Medicaid Block Grants Force Low Income Elderly Out of Fee-For-Service Plan

At the same time Republicans are cutting Medicare by an unprecedented \$270 billion, they are block granting Medicaid and cutting it by \$182 billion. The reduced funding and the block grant would mean that most State Medicaid programs could no longer afford to pay for low income Medicare beneficiaries' premiums, deductibles, and copayments. As a result, these beneficiaries would be forced out of their fee-for-service plans. Specifically, CBO concludes "that eliminating the entitlement to cost-sharing for Medicaid eligibles and QMBs would increase enrollment as those beneficiaries sought out plans with lower cost-sharing requirements."

LEAKED CBO ANALYSIS PROVES REPUBLICAN MEDICARE PLAN

WOULD MAKE BENEFICIARIES PAY MORE/GET LESS

Price Controls, Not Republicans' Managed Care, Produce Savings

Senate Republicans are claiming \$48 billion in savings from their Medicare Choice proposal. A September 27th leaked memo from the Congressional Budget Office (CBO) confirms that the savings from the Senate Republican plan comes from price controls -- caps on Medicare payments for managed care set 31 percent below private sector growth rates. Therefore, the benefits these plans provide would have to be reduced over time. Simply put, beneficiaries in these plans would have to pay more (in premiums) or get less (in covered services).

Medical Savings Accounts Increases Medicare Costs

CBO confirms that Medical Savings Accounts (MSAs) don't save money; they cost money. CBO says MSAs "would cost about \$2.3 billion as a result of adverse selection" -- approximately \$1,000 per person per year for each MSA enrollee. This means that CBO projects that only a few healthy, wealthy beneficiaries will opt for this high deductible option, leaving less healthy and more expensive beneficiaries in the traditional plan.

Medicaid Block Grants Force Low Income Elderly Out of Fee-For-Service Plan

At the same time Republicans are cutting Medicare by an unprecedented \$270 billion, they are block granting Medicaid and cutting it by \$182 billion. The reduced funding and the block grant would mean that most State Medicaid programs could no longer afford to pay for low income Medicare beneficiaries' premiums, deductibles, and copayments. As a result, these beneficiaries would be forced out of their fee-for-service plans. Specifically, CBO concludes "that eliminating the entitlement to cost-sharing for Medicaid eligibles and QMBs would increase enrollment as those beneficiaries sought out plans with lower cost-sharing requirements."

Book -
CBO

REPUBLICAN MEDICARE "CHOICES" DON'T SAVE MONEY

THE CLAIM:

Republicans claim that new Medicare private plan choices will save money for the Medicare program and its beneficiaries. Specifically, the Republicans assert that by making more managed care and a new Medicare medical savings account (MSA) available to beneficiaries, they will save \$30 to \$50 billion over seven years.

THE FACTS:

Both House and Senate Republican Medicare restructuring proposals include provisions that expand plan options for beneficiaries. These options include: (1) broadening HMO choices to include point of service plans, (2) adding preferred provider organizations (PPOs) and provider networks, and (3) establishing a new Medicare MSA. They claim to use these options as a means of assuring competitively produced Medicare savings. However, the plans they are establishing are paid within the context of an arbitrarily set and capped Medicare budget.

Republican Plan Achieves Savings Through Use of Payment Caps

- CBO confirms that the \$43 billion in "managed care" savings from the Senate Republican plan come from payment caps -- caps on Medicare payments for managed care set at 31 percent below private sector growth rates (September 27, 1995).
- The House Republican plan also relies on comparable payment caps to reach their savings.
- Under both plans, if the cost of Medicare benefits exceed the tight price caps, then beneficiaries will either pay higher premiums or get fewer benefits. There is nothing in the Republican bills that protects people on Medicare from plans shifting costs to them.

Medical Savings Accounts (MSAs) Increase Medicare Costs

- MSAs use the savings from the reduced cost of a high deductible plan to fund a tax deferred grant to individual to be used to purchase health care. They are theoretically designed to encourage individuals to be more cost sensitive in using health services. However, they tend to attract healthy individuals who believe they will not be needing health care.
- CBO has concluded that Medicare MSAs don't save money, they cost money. CBO says that MSAs "would cost about \$2.3 billion as a result of adverse selection" -- approximately \$1,000 per person per year for each beneficiary in an MSA (September 27, 1995). A Lewin-VHI Inc. study also just released puts the cost at between \$15-\$20 billion.

Book - CBO

REPUBLICAN MEDICARE "CHOICES" DON'T SAVE MONEY

THE CLAIM:

Republicans claim that new Medicare private plan choices will save money for the Medicare program and its beneficiaries. Specifically, the Republicans assert that by making more managed care and a new Medicare medical savings account (MSA) available to beneficiaries, they will save \$30 to \$50 billion over seven years.

THE FACTS:

Both House and Senate Republican Medicare restructuring proposals include provisions that expand plan options for beneficiaries. These options include: (1) broadening HMO choices to include point of service plans, (2) adding preferred provider organizations (PPOs) and provider networks, and (3) establishing a new Medicare MSA. They claim to use these options as a means of assuring competitively produced Medicare savings. However, the plans they are establishing are paid within the context of an arbitrarily set and capped Medicare budget.

Republican Plan Achieves Savings Through Use of Payment Caps

- CBO confirms that the \$43 billion in "managed care" savings from the Senate Republican plan come from payment caps -- caps on Medicare payments for managed care set at 31 percent below private sector growth rates (September 27, 1995).
- The House Republican plan also relies on comparable payment caps to reach their savings.
- Under both plans, if the cost of Medicare benefits exceed the tight price caps, then beneficiaries will either pay higher premiums or get fewer benefits. There is nothing in the Republican bills that protects people on Medicare from plans shifting costs to them.

Medical Savings Accounts (MSAs) Increase Medicare Costs

- MSAs use the savings from the reduced cost of a high deductible plan to fund a tax deferred grant to individual to be used to purchase health care. They are theoretically designed to encourage individuals to be more cost sensitive in using health services. However, they tend to attract healthy individuals who believe they will not be needing health care.
- CBO has concluded that Medicare MSAs don't save money, they cost money. CBO says that MSAs "would cost about \$2.3 billion as a result of adverse selection" -- approximately \$1,000 per person per year for each beneficiary in an MSA (September 27, 1995). A Lewin-VHI Inc. study also just released puts the cost at between \$15-\$20 billion.

CJ - memo on
Baseline diagrams

(Look) - baseline
issues

4-5 pages from
HCFA - Trusts
Baseline

MEDICARE SPENDING UNDER THE BALANCED BUDGET PROPOSALS

Medicare spending, savings and growth rates have become an important point of comparison between the President's and the Republicans' balanced budget plans. However, confusion over the right way to compare the Medicare proposals has surfaced. Specifically, the use of the Administration's Medicare baseline rather than the Congressional Budget Office's (CBO's) baseline has been used to create the misperception that the President's plan for Medicare would look more like the Republicans' plan if a common baseline were used. However, differences in estimating the baseline do not change the fact that the level of cuts called for by the Republicans are more than double those of the President's plan.

- **The baseline differences between the Congressional Budget Office (CBO) and the Administration are not large.**

Between 1996 and 2002, the dollar-amount difference between the two baselines is \$71 billion -- only 4 percent of the total CBO baseline. The baselines for inpatient hospital services, which represent nearly half of Medicare spending, are virtually identical.

- Eventually, comparisons of the plans will be made by pricing or "scoring" specific policies on the same baseline. Until such policies are specified, comparisons of the spending and savings under the plans can be made using simplifying assumptions.
- **One way to compare the President's plan to the Republican plan using the CBO baseline is to assume that the President's proportionate reduction in spending is the same under both baselines.**

The President's plan would reduce Medicare spending by 7% over the seven-year period, relative to the Republican plan, which reduces spending by 14%. Since this comparison describes the magnitude of the cut in relationship to the respective baseline, it takes the baseline issue out of the equation. This percent reduction could also be converted into a dollar amount: if the CBO baseline were reduced by 7%, then the President's plan would save \$130 billion.

- **Another approach was taken by the CBO who, in a letter to Senator Domenici, assessed the President's Medicare savings under the CBO baseline by assuming the President's savings are the same under both baselines.**

This means that the \$124 billion in savings projected off of the Administration baseline would be \$124 billion off of the CBO baseline as well. However, the CBO spending levels for the President's plan would be higher, since \$124 billion is subtracted from a higher baseline, yielding higher proposed spending.

Given the fact that CBO and Administration have frequently scored Medicare policies similarly in the past, this approach offers an approximation of the President's plan under

the CBO baseline. Recently, for example, the CBO scored the Medicare "extenders" in the President's 1996 budget at \$30 billion, whereas the Administration estimated their savings at \$28 billion. Similarly, the CBO and Administration estimates of the savings under the President's health reform bill were less than \$1 billion different over a five-year period.

However, the similarity in scoring depends on the specific set of policies. While hospital and premium policies have been scored similarly in the past, there have been differences in areas where baseline projections differ.

- **An incorrect way of comparing the President's plan to the Republican plan is to assume that the President's spending is the same under both baselines.**

It has been asserted that the President's plan has set down what he believes is an acceptable spending level, and that this represents a commitment to this spending level regardless of baselines. For instance, the total Medicare spending under the President's plan of \$1,675 billion over seven years -- estimated from the Administration's baseline -- would still be \$1,675 billion under the CBO baseline.

This is flawed logic, however. Projections of the spending that results from a set of policy changes are made by modifying baseline spending projections. Thus, if there are different baseline spending projections, the spending under the proposed law will be different. Assuming that the Medicare spending under the proposed law is fixed and does not change when different baseline assumptions are used is incorrect.

The President's commitment is not to a specific spending number, but a set of policies that result in that spending number.

#CBO-look

MEMORANDUM

September 27, 1995

TO: Julie James
Bruce Lesley

FROM: Murray Ross 

SUBJECT: Estimating savings from Medicare Choice in the Chairman's Mark

CBO's estimate of savings from Medicare Choice is the net result of changes in spending from three sources:

- o lower updates on payments made on behalf of current enrollees (strictly speaking, the share of Medicare beneficiaries enrolled in risk contracts under current law);
- o savings associated with new enrollees (the estimated fraction of Medicare beneficiaries moving from traditional fee-for-service to Choice plans other than high deductible plans); and
- o payments on behalf of beneficiaries choosing the high deductible insurance/medical savings account option.

Over seven years, CBO estimates that savings on current enrollees would total \$42.6 billion (see attached table). Savings on new enrollees would total about \$7.1 billion. Payments to Choice enrollees with high deductible plans would cost about \$2.3 billion as a result of adverse selection not fully compensated for by risk adjustment. The net savings attributed to Medicare Choice is \$47.5 billion.

CBO's estimate assumes that enrollment in Choice plans (including high deductible plans) would reach about 22% of Medicare beneficiaries by 2002, compared with the 14% of beneficiaries projected to be covered by risk plans in the CBO baseline. Most of the increase is attributable to CBO's assumptions about beneficiaries' responses to the new government-coordinated open enrollment process and expanded choices. CBO assumed that there would be a short-run increase in enrollment reflecting these factors, but a slightly lower rate of growth in future enrollment. In addition, CBO assumed that eliminating the entitlement to cost-sharing for Medicaid eligibles and QMBs would increase enrollment as those beneficiaries sought out plans with lower cost-sharing requirements.

CBO ASSUMPTIONS UNDERLYING CALCULATION OF MEDICARE CHOICE SAVINGS

	Fiscal Years							
CHANGE IN SPENDING (Billions of dollars)	1996	1997	1998	1999	2000	2001	2002	Total
Baseline Enrollees	-0.4	-1.9	-3.6	-5.4	-7.5	-10.2	-13.7	-42.6
New Enrollees (excluding high deductible plans)	-0.0	-0.1	-0.7	-1.0	-1.3	-1.8	-2.3	-7.1
High-Deductible Plans/MSAs	0.0	0.4	0.4	0.4	0.4	0.4	0.4	2.3
Total	-0.4	-1.5	-3.9	-6.0	-8.4	-11.6	-15.7	-47.5

MANAGED CARE ENROLLMENT (As percent of all Medicare beneficiaries)	1996	1997	1998	1999	2000	2001	2002
CBO Baseline (risk contracts only)	8	9	10	11	12	13	14
Medicare Choice	8	13	17	19	20	21	22
Risk Plans	8	12	16	18	19	20	21
High-Deductible Plans/MSAs	0	1	1	1	1	1	1

Note: Change in spending is difference from Budget Resolution baseline.

Source: Preliminary Congressional Budget Office estimates based on policy in Chairman's mark and discussions with Committee staff.

MEMORANDUM

September 27, 1995

TO: Julie James
Bruce Lesley

FROM: Murray Ross 

SUBJECT: Estimating savings from Medicare Choice in the Chairman's Mark

CBO's estimate of savings from Medicare Choice is the net result of changes in spending from three sources:

- o lower updates on payments made on behalf of current enrollees (strictly speaking, the share of Medicare beneficiaries enrolled in risk contracts under current law);
- o savings associated with new enrollees (the estimated fraction of Medicare beneficiaries moving from traditional fee-for-service to Choice plans other than high deductible plans); and
- o payments on behalf of beneficiaries choosing the high deductible insurance/medical savings account option.

Over seven years, CBO estimates that savings on current enrollees would total \$42.6 billion (see attached table). Savings on new enrollees would total about \$7.1 billion. Payments to Choice enrollees with high deductible plans would cost about \$2.3 billion as a result of adverse selection not fully compensated for by risk adjustment. The net savings attributed to Medicare Choice is \$47.5 billion.

CBO's estimate assumes that enrollment in Choice plans (including high deductible plans) would reach about 22% of Medicare beneficiaries by 2002, compared with the 14% of beneficiaries projected to be covered by risk plans in the CBO baseline. Most of the increase is attributable to CBO's assumptions about beneficiaries' responses to the new government-coordinated open enrollment process and expanded choices. CBO assumed that there would be a short-run increase in enrollment reflecting these factors, but a slightly lower rate of growth in future enrollment. In addition, CBO assumed that eliminating the entitlement to cost-sharing for Medicaid eligibles and QMBs would increase enrollment as those beneficiaries sought out plans with lower cost-sharing requirements.

CBO ASSUMPTIONS UNDERLYING CALCULATION OF MEDICARE CHOICE SAVINGS

	Fiscal Years							
CHANGE IN SPENDING (Billions of dollars)	1996	1997	1998	1999	2000	2001	2002	Total
Baseline Enrollees	-0.4	-1.9	-3.6	-5.4	-7.5	-10.2	-13.7	-42.6
New Enrollees (excluding high deductible plans)	-0.0	-0.1	-0.7	-1.0	-1.3	-1.8	-2.3	-7.1
High-Deductible Plans/MSAs	0.0	0.4	0.4	0.4	0.4	0.4	0.4	2.3
Total	-0.4	-1.5	-3.9	-6.0	-8.4	-11.6	-15.7	-47.5

MANAGED CARE ENROLLMENT (As percent of all Medicare beneficiaries)	1996	1997	1998	1999	2000	2001	2002
CBO Baseline (risk contracts only)	8	9	10	11	12	13	14
Medicare Choice	8	13	17	19	20	21	22
Risk Plans	8	12	16	18	19	20	21
High-Deductible Plans/MSAs	0	1	1	1	1	1	1

Note: Change in spending is difference from Budget Resolution baseline.

Source: Preliminary Congressional Budget Office estimates based on policy in Chairman's mark and discussions with Committee staff.

September 27, 1995

TO: Laura Tyson
Carol Rasco
Gene Sperling

FROM: Chris Jennings

RE: Baseline Analysis

Attached is a quick explanation of the difference in CBO and OMB baselines for both Medicare and Medicaid programs. It is drafted in such a way to make a defensible case for arguing that our baseline is more advisable to use than the CBO baseline.

The most important finding from this analysis is that the OMB Medicare baseline has been closer to actual spending than the CBO baseline for six of the past eight years. The Medicaid baselines comparisons can also be used to back up our contention that, as far as overall expenditures are concerned, we are no worse than CBO and most definitely always have access to more up-to-date data.

As you know, most elite economists will argue that the differences are not overly significant. Therefore, this group of "validators" might not be very receptive to suggestions that one baseline is better than another. Having said this, I believe this analysis may be helpful to make our case.

Lastly, I am trying to get the specific differences between our official baseline and the baseline that the Medicare actuaries use exclusively for the long term Medicare Trust Fund expenditures projections. There is a differences between the two, but as I understand it there is little to no difference inside the immediate budget window. I hope to have a conference call to get final clarification on this sometime today.

I hope this information is helpful, please call me with questions.

September 27, 1995

TO: Distribution
FROM: Chris Jennings
RE: Baseline Analysis

Attached is a quick explanation of the difference in CBO and OMB baselines for both Medicare and Medicaid programs. It is drafted in such a way to make a defensible case for arguing that our baseline is more advisable to use than the CBO baseline.

The most important finding from this analysis is that the OMB Medicare baseline has been closer to actual spending than the CBO baseline for six of the past eight years. The Medicaid baselines comparisons can also be used to back up our contention that, as far as overall expenditures are concerned, we are no worse than CBO and most definitely always have access to more up-to-date data.

As you know, most elite economists will argue that the differences are not overly significant. Therefore, this group of "validators" might not be very receptive to suggestions that one baseline is better than another. Having said this, I believe this analysis may be helpful to make our case.

Lastly, I am trying to get the specific differences between our official baseline and the baseline that the Medicare actuaries use exclusively for the long term Medicare Trust Fund expenditures projections. There is a differences between the two, but as I understand it there is little to no difference inside the immediate budget window. I hope to have a conference call to get final clarification on this sometime today.

I hope this information is helpful, please call me with questions.

Baseline

September 14, 1995

TO: Dick Morris
FROM: Chris Jennings
RE: Request for Baseline Analysis

Attached is a quick explanation of the difference in CBO and OMB baselines for both Medicare and Medicaid programs. It is drafted in such a way to make a defensible case for arguing that our baseline is more advisable to use than the CBO baseline.

As you know, most elite economists will argue that the differences are not overly significant. Therefore, this group of "validators" might not be very receptive to suggestions that one baseline is better than another. Having said this, I think you'll find this analysis helpful to make our case.

Call me with questions.

Comparison of CBO and OMB Baselines Medicare

- The OMB baseline has been closer to actual spending than the CBO baseline for six of the past eight years for which there is data (FY 1987 - FY 1995).

Fiscal Year	OMB	CBO	Actual Spending
1987	78	80	80
1988	85	90	86*
1989	94	96	94*
1990	110	112	107*
1991	114	116	114*
1992	127	127	129
1993	143	142	143*
1994	164	167	160*

* indicates years in which OMB projection closer to actual spending than CBO projection

- Projecting baseline spending is a complex process requiring multiple assumptions. There are interactions between private and public spending that cannot always be anticipated. Small differences in assumptions can translate into large differences in projections.
- The difference between the President's Budget and CBO February Medicare baselines is initially relatively small but grows larger over time. Over 7 years, CBO projects \$71 billion more in spending than OMB, or a difference of only 4 percent. This difference in spending is largely driven by a few spending categories.
 - The largest differences are in home health, physicians, hospice, and SNF expenditures. Different assumptions about the rate of growth in these services results in large differences over time.
 - Projecting physician spending is difficult because the rate of growth in expenditures has been unstable year to year. This is most likely due to the changes occurring in the health marketplace, and to the large impact of the private sector on physician expenditures.
 - CBO and OMB projections for hospital spending, which represents the largest category of Medicare expenditures, are very similar.

- The process for making baseline projections is slightly different for CBO versus OMB. One explanation for this difference is OMB's access to data which CBO does not have.
 - CBO only has access to aggregated expenditure data from the treasury while OMB, through HCFA, has access to historical data from carriers, who process Part B claims, and intermediaries, who process Part A claims, which provides them with more detailed data including utilization.

Comparison of CBO and OMB Baselines

MEDICAID:

- The OMB Medicaid baseline is developed by HCFA actuaries by using a detailed and sophisticated forecasting model that includes:
 - historical spending data;
 - the most recent estimates from the states;
 - the Administration's economic and demographic assumptions; and
 - assumptions for changes in enrollment (both Medicaid only and for linked programs -- AFDC and SSI).
- CBO develops its Medicaid baseline by using the same historical data with fewer details of beneficiary and benefits categories.
- The CBO and OMB baselines are driven by assumptions. Minor differences can result in significant dollar differences between the original estimates and the actual spending.
 - National projections are difficult because programmatic changes in state programs can completely change actual spending (e.g. DSH).
- There is a \$64 billion difference between the OMB and the CBO baseline projections over the next seven years. There are significant differences in assumptions about program growth that produce this difference.

For example, the growth in enrollees and benefits are significantly different.

- For enrollee growth, the OMB projected growth rate is 3.8 percent and the CBO rate is 3.0 percent;
- Long-term care spending is projected to grow 8.2 percent annually under the OMB baseline compared to 10 percent for CBO; and
- OMB projects the DSH program to grow at 6.8 percent annually compared to 3.6 percent for CBO.

These result in an overall annual growth rate for the CBO baseline of 10.2 percent compared to the OMB baseline which grows at 9.3 percent annually. The corresponding per capita growth rates are 7.0 percent and 5.3 percent for CBO and OMB respectively.

MEDICAID

CBO and OMB Baseline Projections (Federal Outlays in Billions)

Fiscal Year	Projections*		Actual
	CBO	OMB	
1987	\$26	\$26	\$27
1988	\$30	\$28	\$30
1989	\$34	\$33	\$35
1990	\$38	\$37	\$41
1991	\$45	\$45	\$53
1992	\$57	\$60	\$68
1993	\$80	\$85	\$76
1994	\$92	\$92	\$82
1995	\$96	\$96	**\$88
1996	\$99	\$96	
1997	\$110	\$105	
1998	\$122	\$115	
1999	\$135	\$125	
2000	\$148	\$136	
2001	\$163	\$150	
2002	\$178	\$164	

*February OMB and January CBO projections beginning in 1986.

**Latest HCFA estimate of 1995 spending.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
LEGISLATIVE AFFAIRS

PHONE: 395-4790 / FAX: 395-3729

TO: Chris Jennings

FROM:

☒ CHUCK KIEFFER / Haas ☐ CHUCK KONIGSBERG
☐ LISA KOUNTOUPOS ☐ LYDIA MUNIZ
☐ KRISTEN PANERALI ☐ NANCY BRANDEL
☐ EMILY KIM ☐ EVA SHEIBAR

COMMENTS: CBO letter

FAX NUMBER: 6-7431

PAGES: 3

PHONE NUMBER: _____

(includes cover page)



CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

June E. O'Neill
Director

June 16, 1995

Honorable Pete V. Domenici
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

At your request, the Congressional Budget Office (CBO) has reviewed "The President's Economic Plan: A Balanced Budget That Puts People First," as released on June 13, 1995. The President's June budgetary plan incorporates most of the elements of the budget submitted by the President in February, with additional reductions in spending and increases in taxes designed to make further reductions in the federal deficit. As explained by the staff of the Office of Management and Budget (OMB), these additional budgetary savings are "indicative proposals" that as yet do not represent specific policies. Therefore, a detailed program-by-program evaluation of the President's June budget is not possible at this time. CBO has prepared, however, a preliminary assessment of the budgetary effect of the President's new plan.

The attached table provides a rough estimate of how the President's June budget plan would affect the total deficit, if the plan's assumptions were translated into specific policies. As you requested, the table displays the President's program as changes from CBO's April budget baseline. CBO has adjusted the baseline deficit to reflect the projected effects of rebenchmarking the consumer price index (CPI). In 1998, the weights of the various categories of consumption in the CPI will change from the current 1982-1984 basis to a 1993-1995 basis. The House- and Senate-passed budget resolutions assume that this change will reduce the growth of the overall CPI by about two-tenths of a percentage point a year.

For defense and nondefense discretionary spending, CBO's estimate assumes the level of outlays specified in the President's plan. Because CBO's baseline for these programs is higher than the Administration's baseline, the amounts of discretionary savings shown in the table are larger than the Administration's figures. For mandatory spending programs and revenues, CBO's preliminary assessment assumes that the changes from the baseline would be the same as those estimated by the Administration. The revenue changes differ from those shown in the Administration's table, because a reduction in Federal Reserve earnings associated with an assumed drop in interest rates is excluded. CBO has estimated the resulting amount of debt service savings using the interest rates that underlie our April baseline.

-79-

Honorable Pete V. Domenici
Page 2

Using these assumptions, the budget deficit under the President's policies would represent about 2 percent of gross domestic product (GDP) in 2005. This is well below CBO's baseline deficit, which averages more than 3 percent of GDP over the 1995-2005 period. This reduction in the deficit would allow a modest drop in interest rates compared to those in CBO's baseline. The reduction in rates would be significantly less, however, than would arise if the budget were on a path to balance. Because of the uncertainties involved, the attached table does not incorporate any drop in interest rates attributable to deficit reduction. Even if some allowance were made for lower interest rates, however, the projected deficits under the President's June budget would likely remain near \$200 billion through 2005.

The differences between the CBO and OMB estimates of the deficit stem primarily from differences in budget baselines. As shown at the bottom of the table, CBO projects that the budget deficit under current policies will reach \$454 billion in 2005, assuming that discretionary spending keeps pace with inflation after the expiration of the discretionary spending limits in 1998. OMB projects a baseline deficit of only \$266 billion for 2005. The differences between the baselines reflect underlying differences in both economic and other estimating assumptions. Although the economic assumptions of CBO and the Administration appear quite similar, the differences are sufficient to produce noticeable differences in budget projections. On average, the Administration foresees slightly faster economic growth between now and 2005 than does CBO. Also, CBO and the Administration differ in their projections of the growth of the consumer price index, which affects indexed benefit programs and tax brackets, relative to that of the GDP deflator, which affects estimates of taxable income. CBO assumes that the CPI will grow significantly faster than the deflator, whereas the Administration assumes only slightly faster growth.

Estimating differences unrelated to economic differences also add to CBO's estimate of the baseline deficit compared with the Administration's estimates. Much of the difference in projected spending can be found in the Medicare and Medicaid programs. Although CBO believes that the growth of these programs has slowed from the extremely high rates of recent years, it is not quite as optimistic as the Administration about the slowdown.

If you wish further details on this analysis, we will be pleased to provide them.

Sincerely,



for June E. O'Neill
Director

cc: Honorable J. James Exon
Ranking Minority Member

Identical letter sent to Honorable John R. Kasich.

- 80 -

18-JUN-95

THE PRESIDENT
(by fiscalBUDGETARY PROPOSALS
(in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1998-2002	2003
CBO Baseline Deficit With Discretionary Inflation After 1995 /a	210	230	232	260	299	310	340	384	422	472	NA	NA
Adjustment for Rebenchmarking of the Consumer Price Index	0	0	0	-1	-3	-6	-10	-12	-14	-16	NA	NA
Adjusted Baseline Deficit	210	230	232	260	296	310	340	372	408	454	NA	NA
President's Budgetary Proposal /b: Discretionary spending	-5	-8	-16	-30	-45	-53	-62	-70	-84	-112	-210	-505
Mandatory spending												
Medicare	-4	-6	-10	-16	-23	-30	-36	-45	-55	-67	-126	-285
Medicaid	-4	-4	-6	-7	-9	-11	-13	-16	-17	-19	-54	-103
Poverty programs	-2	-4	-5	-6	-8	-7	-8	-8	-8	-8	-38	-63
Other	-2	-2	-1	3	1	1	2	2	2	1	2	3
Subtotal	-11	-16	-22	-26	-35	-40	-52	-70	-82	-95	-210	-465
Revenues /c, d	3	10	11	14	16	20	21	21	25	23	87	169
Corporate subsidies /d	-1	-2	-3	-4	-5	-5	-6	-8	-8	-6	-25	-43
Debt service /e	-1	-2	-3	-6	-10	-15	-22	-31	-42	-55	-57	-165
Total changes	-14	-18	-33	-52	-77	-99	-130	-165	-188	-246	-422	-1031
Deficit Under the President's Budgetary Proposal	196	212	199	213	220	211	210	207	209	209	NA	NA
Memorandum:												
CBO baseline deficit /a	210	230	232	260	296	310	340	372	408	454	NA	NA
OMB baseline deficit /a	201	218	209	221	228	235	240	248	255	266	NA	NA
OMB minus CBO	-9	-12	-23	-44	-67	-75	-100	-124	-153	-166	-331	-786

SOURCES: Congressional Budget Office; Office of Management and Budget

NOTES: Numbers do not add because of rounding. NA = Not applicable.

- Assumes compliance with discretionary spending limits through 1998. Discretionary spending is assumed to increase at the rate of inflation after that.
- Discretionary savings equal the difference between CBO's baseline discretionary spending and the levels of discretionary spending specified in "The President's Economic Plan," released June 13, 1995. Mandatory spending savings and revenue changes are at the levels specified in the President's plan. CBO has not reestimated the savings because there is not sufficient detail available at this time to allow a reestimate.
- Excludes estimated loss of revenues from the Federal Reserve associated with the Administration's anticipated reductions in interest rates.
- Revenue losses are shown with a positive sign because they increase the deficit.
- Debt service represents CBO's estimate of the reduction in interest payments that would result directly from the non-interest savings shown in this table. It does not include any possible effect from lower interest rates that might result from lower deficits.

-81-

Medicare Scoring Issues

1. What are the savings associated with managed care? Are there any new data that have dramatically altered the estimates?

In particular, if the additional costs charged for remaining in fee-for-service are not too great, what kind of participation rate would one expect in a managed care option? Also, would the healthier individuals be the ones more inclined to use the managed care option? After answering these questions, how would the savings from a new managed care option compare to the \$270 Billion of savings called for in the Budget Resolution?

2. If the savings in the Medicare program are insufficient to meet the savings requirement, then the Republicans are considering using some type of automatic sequester that would automatically cause provider and/or beneficiary cuts to go into effect once the savings shortfall became real. If it is currently estimated that these cuts would in fact be needed, these cuts should be treated as real cuts, not some hypothetical abstraction.

3. The issues of how we might change Medicare and the effects of such changes are critical. These issues should not be diminished by any scoring gimmicks, baseline obfuscation, or other such tricks. A cut is a cut. If savings from efficiencies such as managed care do not yield the required savings, then real cuts will occur to providers and/or beneficiaries.

CBO and OMB Medicare Baseline Differences

- There are really two separate issues here: (1) the historical difference between the CBO and OMB Medicare baselines, and (2) the differences between CBO and OMB scoring of individual Medicare savings proposals.
 - The difference in the baselines is independent of any proposals for Medicare savings, and
 - One cannot assume from this that CBO and OMB would score a set of individual Medicare savings proposals with any significant deviation.

1. Differences in the Baselines

- There have always been differences between the CBO and OMB Medicare baselines. These differences tend to be quite narrow in the current year, and grow during the out-years.
- As CBO said in its April 1995 analysis of the FY96 President's Budget, "given the size of [the Medicare and Medicaid] programs and the uncertainty about their future costs, the projections of CBO and the Administration are not very far apart."
 - For FY96, CBO's estimate of Medicare spending is only about \$4 billion higher than OMB, but this difference grows in succeeding years; in 2002, the difference is \$18 billion.
 - Over the period from 1996-2002, we estimate that the total difference between the CBO and OMB Medicare benefits baselines is about \$70 billion.
- OMB's Medicare baseline projections are calculated by the HCFA actuaries, who use the Administration's economic assumptions. For FY96, the actuaries reduced projected Medicare spending by \$40 billion over the 1996-2000 period that the President's Budget covers.
 - The actuaries expect spending in the Medicare program over this time to increase at a slower rate than in recent years.
 - This projected slowdown is the result of several factors. In particular, Hospital Insurance (HI) expenditures have grown more slowly than expected.

- Slower HI growth results primarily from lower hospital cost inflation and slower growth in complexity of Medicare inpatient cases.
- CBO's projections indicate that it agrees that Medicare spending will rise at a slower rate over the next five years, although CBO does not expect the reduction to be quite as significant.
- CBO's January 1995 *Economic and Budget Outlook* indicates that CBO is less optimistic about the slowdown in Medicare spending because of its view that the apparent slowing in the growth of payments for hospitalizations and physician visits is roughly offset by fast-growing costs, other services such as home health care and skilled nursing facilities.

2. Differences in "Scoring" Savings Proposals

- Determining how CBO would score the President's Medicare savings proposals is an almost impossible task. While it might seem that one could simply figure out the percentage by which the CBO baseline is higher than the OMB baseline, and multiply the total of the savings proposals by that amount, that calculation would not be even close to accurate.
- The reason is that the CBO baseline is composed of many separate baselines for different services and providers.
- Thus, scoring of specific savings proposals would really have to be done by CBO, proposal by proposal using detailed specifications, against the appropriate baseline.
- Recent history reflects that these baseline differences are not that important when it comes to scoring specific savings proposals. For example:
 - The Health Security Act contained Medicare savings proposals that OMB estimated would save \$118.3 billion over the 1995-2000 period. CBO scored these same proposals as saving \$117.6 on its baseline, which was higher than ours.
 - The President's FY96 budget contained four Medicare "extenders" from OBRA93 that OMB estimated would save \$28 billion over the 1995-2000 period. CBO has since scored these same proposals as saving only slightly more, \$30 billion.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

June 14, 1995

Honorable Martin Olav Sabo
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

Martin
Dear Representative Sabo:

I wanted to follow up on our brief discussion at the Caucus this morning about the differences between the CBO and OMB baselines as they relate to Medicare.

Actually, there are two issues here: (1) the historical difference between the CBO and OMB Medicare baselines in the aggregate, and (2) the differences between CBO and OMB scoring of individual Medicare savings proposals. What I was trying to say today was that:

- the difference in the baselines is independent of any proposals for Medicare savings, and
- one cannot assume that CBO and OMB would score a set of individual Medicare savings proposals with any significant deviation.

The numbers in the materials we discussed with the Caucus today are the most accurate way to compare the President's Medicare savings proposals with the Republican proposals.

CBO and OMB Baseline Differences

As you know, there have always been differences between the CBO and OMB Medicare baselines. These differences tend to be quite narrow in the current year, and grow during the out-years. As CBO said in its April 1995 analysis of the FY96 President's Budget, "given the size of [the Medicare and Medicaid] programs and the uncertainty about their future costs, the projections of CBO and the Administration are not very far apart."

Over the period from 1996-2002, we estimate that the total difference between the CBO and OMB Medicare benefits baselines is about \$70 billion. For FY96, CBO's estimate of Medicare spending is only about \$4 billion higher than OMB, but this difference grows in succeeding years; in 2002, the difference is \$18 billion.

OMB's Medicare baseline projections are calculated by the HCFA actuaries, who use the Administration's economic assumptions. The projections for FY96 reduced projected Medicare

spending by \$40 billion over the 1996-2000 period that the President's Budget covers. We expect spending in the Medicare program over this time to increase at a slower rate than in recent years.

This projected slowdown is the result of several factors. In particular, Hospital Insurance (HI) expenditures have grown more slowly than we expected at the time we put together the budget for FY95. Slower HI growth results primarily from a fall in forecasted hospital cost inflation and the slower growth in complexity of Medicare inpatient cases.

CBO's projections indicate that it shares our view that Medicare spending will rise at a slower rate over the next five years, although CBO does not expect the reduction to be quite as significant.

CBO forecasts 9.7% average annual growth in baseline outlays, while OMB forecasts 9.1% average annual growth, for a cumulative difference of \$40 billion over the 1996-2000 period. CBO's January 1995 Economic and Budget Outlook indicates that CBO is less optimistic about the slowdown in Medicare spending because it estimates that the apparent slowing in the growth of payments for hospitalizations and physician visits is roughly offset by fast-growing costs for care in other settings, particularly for home health care and skilled nursing facilities.

CBO vs. OMB Scoring of Medicare Savings Proposals

Determining how CBO would score the President's Medicare savings proposals is an almost impossible task. Although it might seem that one could simply figure out the percentage by which the CBO baseline is higher than the OMB baseline, and multiply the total of our savings proposals by that amount, that calculation would not be accurate. In fact, our analysts -- and HCFA's professional Medicare actuaries -- tell me that it might not even be in the ballpark.

The reason is that the CBO baseline is not a monolithic stream of numbers; rather, it is composed of many separate baselines for different services and providers. Thus, for example, a proposal affecting clinical laboratories would have to be scored against the clinical laboratories baseline, which might be lower than the OMB baseline for the same service, even though in the aggregate, CBO's baseline is higher. Thus, scoring of specific savings proposals would really have to be done by CBO, proposal by proposal using detailed specifications, against the appropriate baseline.

I understand your concern about the uncertainty and complexity that baseline differences introduce into the scoring of Medicare savings proposals. Unfortunately, we can do nothing about these baseline differences; the good news is that recent

history reflects that they are not that important when it comes to scoring specific savings proposals.

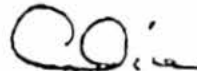
Let me mention two examples:

- First, you will recall that the Health Security Act contained Medicare savings proposals that we estimated would save \$118.3 billion over the 1995-2000 period. CBO scored these same proposals as saving \$117.6 on its baseline, which was higher than ours.

- Second, and most recently, our FY96 budget contained four Medicare "extenders" from OBRA93 that we estimated would save \$28 billion over the 1995-2000 period. CBO has since scored these same proposals as saving only slightly more, \$30 billion.

I hope this letter has answered some of your questions about our health reform proposal. Your support is critical as we work with the Congress to achieve what we both want: a balanced budget that is fair and reasonable. I look forward to working with you in the coming weeks.

Sincerely,



Alice M. Rivlin
Director

Hope this helps.

CBO VS. OMB

Q. THE CONGRESSIONAL BUDGET OFFICE SAYS THAT THE ADMINISTRATION'S NUMBERS ARE WAY-OFF WHEN THEY USE THE CBO BASELINE. ISN'T THIS JUST ANOTHER ROSY SCENARIO?

A. Absolutely not. We have a solid balanced budget plan based on numbers that are consistent, conservative and professional. Indeed, using the assumptions of the top private sector forecasters, our plan would get to balance.

There are some small differences between CBO and OMB in growth estimates and the health care baseline that get magnified over a 10 year period. We believe that our baseline is superior. Even CBO admits that our growth estimates are more consistent with the Blue Chip than theirs are. And our health care estimates are done by top, career health professionals at the Health Care Finance Administration, who have the best and most current information.

Indeed, CBO acknowledges that the Administration is closer to the Blue Chip than the CBO on the key economic assumptions that affect the deficit, including growth, interest rates and the GDP deflator.

Yet, while we believe our baseline is the best and they clearly believe that their baseline is the best, the key thing is that neither side should let honest accounting differences be an excuse to not work together to avoid a train wreck and to come up with the type of balanced budget plan that the American people could support.

FOLLOW UP: BUT DIDN'T YOU PROMISE IN 1993 TO USE CBO PROJECTIONS?

In his first budget, the President wanted to take away any disputes over numbers. Remember, Administration projections didn't have the best reputation after 12 years of magic asterisks and smoke and mirrors. Our accurate projections and success on the budget over the past two years have restored faith in an Administration's ability to put forward reasonable, fair budget projections. Indeed, we have been more on target than CBO in projecting the deficit so far. So particularly when the Administration numbers are exactly in line with the top private sector forecasters, it is appropriate and necessary for the President to rely on OMB for his budget projections.

BACKGROUND INFORMATION ON THE OMB/CBO BASELINE DIFFERENCES

- By our best estimates, using the economic assumptions of the Blue Chip forecasts and the career professionals at HCFA (Health Care Finance Administration), the President's economic plan gets to a small surplus in the year 2005.
- *Indeed, CBO acknowledges that the Administration is closer to the Blue Chip than the CBO on three key economic assumptions that affect the deficit, including growth, interest rates and the GDP deflator.*
- A Federal Reserve Board of Philadelphia study of 59 top economists projected average real GDP growth of 2.6% over ten years. The Administration has projected average growth of slightly under 2.5%. Therefore, the Administration's numbers are somewhat conservative compared to many top private sector economists.
- There are differences between the OMB and CBO baselines, but they are based on very small differences in two areas that appear more significant when they are extended over a 10 year period.
- Indeed, after the House takes into account its economic assumptions based on the CPI, growth and interest rates, 60% of the baseline differential is already evaporated. So the baseline difference between the Administration and the House is actually not so significant.
- The record has proved that OMB was more accurate in its deficit forecast than CBO when it presented the Administration's 1993 economic plan.

GROWTH RATES:

- **Very Small Differences:** We assume growth at slightly under 2.5% over the next several years. CBO is a little lower, around 2.3%. Yet, with the growth dividend that the House Budget Committee is taking with its plan -- and we are not -- the difference is virtually non-existent. CBO stated that "the economic assumptions of the Clinton Administration and the Congressional Budget Office are similar," and that our assumptions actually lead to more conservative deficit estimates in the first two years of our forecast.
- **Consistent with Outside Forecasters:** Our proposals are consistent with those of the top outside forecasters. Our growth forecasts are virtually identical to the Blue Chip between 1997-2001, and indeed, in both 1999 and 2000, the Blue Chip forecasts .4 and .3 higher growth than the Administration does. Meyer & Associates calls for higher growth than the Administration in 1999, 2000, 2001 and the same in 2002. DRI is higher than we are for two years, lower than we are for two years and the same two years. Ray Fair has higher growth forecasts every year between 1998 and 2001. So it is clear that we have conservative growth estimates that are consistent with the top private sector forecasters.

Indeed, the April, 1995 CBO document that compares CBO and OMB states that *"the Administration is generally closer than the CBO to the Blue Chip's long-range projections. The Blue Chip indicates the same average growth over the 1997-2000 period as the Administration and has similar projections for interest rates and the GDP deflator."*

- **This is Very Different from the Rosy Scenarios of the Past:** The Administration's growth forecast is only about .1% higher than CBO's. This is very different from the rosy scenarios that characterized Republican Administrations. For example, Stockman's FY1982 budget predicted growth a whopping 1.3% higher than the CBO. The next year, he came back again with a budget that predicted growth an average of 1.0% higher on average each year for his plan. All four years of the Bush Administration called for budgets with growth rates that were on average .75% higher every year than the CBO projection. So when you see the differences of .1% or .2% in the CBO and OMB growth rates, you can see that most years they are 1/10th to 1/7th the degree of differential that we saw during the Bush/Reagan years.

- **"Wedge Factor" Differences are Narrow:** The CBO indicates the difference between the estimates for the CPI and the GDP deflator has an important effect on the estimates of the deficit. This difference is called a "wedge factor." The Administration's estimate of wedge is similar to the Blue Chip's estimate [assuming that both CBO and the Blue Chip make the adjustment for re-benchmarking the CPI that CBO has already announced it will do in its summer update.]

HEALTH CARE:

- One of the two main reason for the difference in the CBO and OMB baselines is that the Administration assumes slightly less growth in Medicare and Medicaid.
- We should recall that these numbers come from the same HCFA actuaries that the Republicans frequently use as authorities when discussing the need to strengthen the Medicare Trust Fund. Certainly, they could not be questioning their credibility now.
- It is important to understand that the Medicare and Medicaid numbers are prepared by the Office of Actuary in the Health Care Financing Administration. The actuaries are career professionals who have been doing these same numbers through the last two Republican Administrations. Any notion that their estimates were affected by anything other than their professional judgment cannot be justified.
- The whole difference comes from the fact that on Medicaid the Administration projects 9.3% growth and the CBO projects 9.9% and on Medicare the Administration projects 9.1% growth and CBO projects 9.7%
- While we believe these are the differences of honorable career professionals on both sides, we do believe that our numbers are more accurate.
- On Medicaid, the Administration has higher beneficiary growth rates, yet they end

up with slightly higher overall growth assumptions because the Administration's estimates of per beneficiary costs are lower than CBO's 5.3% and 7.0%. Yet, the HCFA estimates are based on more up-to-date Social Security numbers regarding disabled beneficiaries in Medicaid and up-to-date Treasury information on Medicaid outlays -- which catches current changing trends.

- On Medicare, the Administration and CBO baselines for inpatient hospital services (which represent half of Medicare costs) are virtually identical. The only real difference is that while both believe the high growth rates in home health and skilled nursing facility costs will come down, the Administration projects them coming down somewhat faster.

ADMINISTRATION'S GROWTH NUMBERS VS. BLUE CHIP'S: The chart below shows that the Administration's projection over five years comes to the same average growth as the Blue Chip, while the CBO's is somewhat pessimistic relative to the consensus of private forecasters.

LONG-RANGE FORECASTS OF GDP GROWTH 1997 THROUGH 2001

	1997	1998	1999	2000	2001
Blue Chip (March)	2.0	2.3	2.9	2.8	2.4
Administration	2.5	2.5	2.5	2.5	2.4
CBO	2.4	2.3	2.3	2.3	2.3

Conference Agreement

Concurrent Resolution on the Budget -- Fiscal Year 1996

Early Highlights

June 23, 1995

Deficits and Spending

- Balance is achieved in seven years by first reducing the rate of growth in total spending.
- Total federal spending grows from \$1.5 trillion in 1995 to \$1.875 trillion in 2002. Annual growth rate of 3.0 percent.
- The federal deficit that would grow next year to nearly \$200 billion without changes in policy, will be reduced to \$170 billion and thereafter decline to a surplus of nearly \$7 billion in 2002.
- Total deficit reduction over the next seven years would reach nearly \$960 billion.

Tax Reductions

- Tax reductions cannot occur until Committees have first met their spending reduction instructions.
- Committees report to the Budget Committees their spending reduction legislation by mid-September and CBO certifies that balance has been achieved in 2002 and a fiscal dividend equal to \$170 billion over seven years, \$50 billion in 2002 has been created.
- Once certification occurs, tax writing committees

would be instructed to report to the Budget Committees within five working days legislation that would reduce tax revenues up to but not to exceed \$245 billion over seven years, and not to exceed the fiscal dividend estimated to be \$50 billion in 2002.

- In no case can the tax cuts in 2002 result in the budget being out of balance.

Select Spending Programs

Medicare

- Medicare will grow from \$178 billion this year to \$274 billion in 2002. Medicare spending will grow at an annual rate of 6.4 percent. Total Medicare spending over the next seven years will top \$1.6 trillion.
- Medicare solvency is insured through 2005.
- Relative to the unsustainable current spending path of Medicare, the conference agreement reduces spending \$270 billion over the next seven years.

Medicaid

- Conference agreement assumes a Medicaid block grant program that would reduce the rate of growth in the program from its current rate of 10.6 percent gradually over the next seven year period reaching about 4 percent in 2002.
- Medicaid spending grows from \$90 billion this year to over \$124 billion in 2002.
- Relative to a continuation of unsustainable growth in this program, savings of \$182 billion are achieved over the next seven years.

Defense

- The conference agreement assumes that defense spending (outlays) will decline from \$270 billion this year to \$265 billion in 1998, and then return to annual spending levels of near \$271 billion in 2001 and 2002.
- Defense spending relative to President Clinton's request this year will increase nearly \$33.1 billion over the next seven years.
- In the Senate, firewalls between defense spending and other discretionary spending would be established for three years.

Nondefense Spending

- Nondefense discretionary appropriations would decline from \$278 billion this year to \$244 billion in 2002.
- Relative to current law spending, these discretionary programs would be reduced \$190 billion over the next seven years through program terminations, consolidations, and returning their program management back to the states.
- The conference agreement assumes the termination of the Commerce Department, but leaves to the Committees of jurisdiction the determination of other Departmental closures.

Other Programs

- The conference agreement assumes welfare reform such that programs are reformed and savings of nearly \$100 billion over the next seven years.
- The conference agreement assumes reform of agriculture price support programs totalling \$13.3 billion over the next seven years. Agriculture price support programs will still expend \$45 billion over the next seven years.
- The conference agreement assumes reform of federal student loan programs \$10 billion over the next seven years. Reforms, it is assumed would be targeted on graduate and professional students.
- The conference agreement assumes nearly full funding of the Violent Crime Reduction Trust Fund.

CONFERENCE AGREEMENT BUDGET AGGREGATES

(Dollars in billions)

	1995	1996	1997	1998	1999	2000	2001	2002
Discretionary:								
Defense.....	270	264	265	265	268	271	271	271
Nondefense.....	278	270	259	252	247	249	245	244
Subtotal discretionary.....	548	534	524	517	516	520	516	515
Mandatory:								
Social Security.....	334	352	371	391	411	433	456	480
Medicare.....	178	191	202	214	226	239	255	274
Medicaid.....	89	96	102	106	110	115	119	124
Other mandatory.....	146	156	162	163	177	186	192	200
Net interest.....	235	259	265	269	276	281	282	283
Total outlays.....	1530	1586	1625	1660	1716	1774	1820	1875
Revenues.....	1355	1417	1475	1546	1618	1698	1789	1883
Resulting deficit/surplus.....	-175	-170	-152	-116	-100	-80	-33	7

NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis.

Prepared by SBC Majority Staff,

22-Jun-95

CONFERENCE AGREEMENT COMPARED TO BASELINE

(Dollars in billions)

	1996	1997	1998	1999	2000	5-yr total	2001	2002	Grand total
Current Law Deficit.....	198	215	211	225	238		226	229	
Discretionary:									
Defense.....	6	8	8	9	9	40	9	9	58
Nondefense.....	-10	-23	-27	-31	-31	-121	-34	-35	-190
Mandatory:									
Social Security.....	--	--	--	--	--	--	--	--	--
Medicare.....	-8	-18	-27	-37	-49	-139	-60	-71	-270
Medicaid.....	-4	-8	-16	-24	-33	-85	-43	-54	-182
Other mandatory.....	-10	-19	-25	-26	-29	-108	-30	-36	-174
Revenues.....	0	0	0	0	0	2	1	1	3
Total policy changes.....	-26	-59	-86	-108	-132	-411	-158	-187	-756
Debt service.....	-1	-5	-9	-16	-24	-55	-35	-48	-137
Total deficit reduction.....	-27	-63	-95	-124	-156	-465	-192	-235	-958
Resulting deficit/surplus....	170	152	116	100	80		33	-7	

NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis.
 Prepared by SBC Majority Staff, 22-Jan-95

CONFERENCE AGREEMENT COMPARED TO BASELINE

(Dollars in billions)

	1996	1997	1998	1999	2000	5-yr total	2001	2002	Grand total
Current Law Deficit.....	198	215	211	225	238		226	229	
Discretionary:									
Defense.....	6	8	8	9	9	40	9	9	58
Nondefense.....	-10	-23	-27	-31	-31	-121	-34	-35	-190
Mandatory:									
Social Security.....	-	-	-	-	-	-	-	-	-
Medicare.....	-8	-18	-27	-37	-49	-139	-60	-71	-270
Medicaid.....	-4	-8	-16	-24	-33	-85	-43	-54	-182
Other mandatory.....	-10	-19	-25	-26	-29	-108	-30	-36	-174
Revenues.....	0	0	0	0	0	2	1	1	3
Total policy changes.....	-26	-59	-86	-108	-132	-411	-158	-187	-756
Debt service.....	-1	-5	-9	-16	-24	-55	-35	-48	-137
Total deficit reduction.....	-27	-63	-95	-124	-156	-465	-192	-235	-958
Resulting deficit/surplus....	170	152	116	100	80		33	-7	

NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis.

Prepared by SBC Majority Staff, 22-Jun-95

MEDICARE SPENDING UNDER THE BALANCED BUDGET PROPOSALS

Medicare spending, savings and growth rates have become an important point of comparison between the President's and the Republicans' balanced budget plans. However, confusion over the right way to compare the Medicare proposals has surfaced. Specifically, the use of the Administration's Medicare baseline rather than the Congressional Budget Office's (CBO's) baseline has been used to create the misperception that the President's plan for Medicare would look more like the Republicans' plan if a common baseline were used. However, differences in estimating the baseline do not change the fact that the level of cuts called for by the Republicans are more than double those of the President's plan.

- **The baseline differences between the Congressional Budget Office (CBO) and the Administration are not large.**

Between 1996 and 2002, the dollar-amount difference between the two baselines is \$71 billion -- only 4 percent of the total CBO baseline. The baselines for inpatient hospital services, which represent nearly half of Medicare spending, are virtually identical.

- Eventually, comparisons of the plans will be made by pricing or "scoring" specific policies on the same baseline. Until such policies are specified, comparisons of the spending and savings under the plans can be made using simplifying assumptions.
- **One way to compare the President's plan to the Republican plan using the CBO baseline is to assume that the President's proportionate reduction in spending is the same under both baselines.**

The President's plan would reduce Medicare spending by 7% over the seven-year period, relative to the Republican plan, which reduces spending by 14%. Since this comparison describes the magnitude of the cut in relationship to the respective baseline, it takes the baseline issue out of the equation. This percent reduction could also be converted into a dollar amount: if the CBO baseline were reduced by 7%, then the President's plan would save \$130 billion.

- **Another approach was taken by the CBO who, in a letter to Senator Domenici, assessed the President's Medicare savings under the CBO baseline by assuming the President's savings are the same under both baselines.**

This means that the \$124 billion in savings projected off of the Administration baseline would be \$124 billion off of the CBO baseline as well. However, the CBO spending levels for the President's plan would be higher, since \$124 billion is subtracted from a higher baseline, yielding higher proposed spending.

Given the fact that CBO and Administration have frequently scored Medicare policies similarly in the past, this approach offers an approximation of the President's plan under

the CBO baseline. Recently, for example, the CBO scored the Medicare "extenders" in the President's 1996 budget at \$30 billion, whereas the Administration estimated their savings at \$28 billion. Similarly, the CBO and Administration estimates of the savings under the President's health reform bill were less than \$1 billion different over a five-year period.

However, the similarity in scoring depends on the specific set of policies. While hospital and premium policies have been scored similarly in the past, there have been differences in areas where baseline projections differ.

- **An incorrect way of comparing the President's plan to the Republican plan is to assume that the President's spending is the same under both baselines.**

It has been asserted that the President's plan has set down what he believes is an acceptable spending level, and that this represents a commitment to this spending level regardless of baselines. For instance, the total Medicare spending under the President's plan of \$1,675 billion over seven years -- estimated from the Administration's baseline -- would still be \$1,675 billion under the CBO baseline.

This is flawed logic, however. Projections of the spending that results from a set of policy changes are made by modifying baseline spending projections. Thus, if there are different baseline spending projections, the spending under the proposed law will be different. Assuming that the Medicare spending under the proposed law is fixed and does not change when different baseline assumptions are used is incorrect.

The President's commitment is not to a specific spending number, but a set of policies that result in that spending number. To reach this spending level on the CBO baseline would require a different set of policies -- that produce much deeper cuts than those of the President and potentially impose new out-of-pocket costs on beneficiaries.

Desperate Republicans Continue Medicare Misinformation Campaign

Republicans Cannot Defend Their Medicare Cuts Without Resorting to Distortions:

- (1) **Republicans claim that the same analysis that shows that their plan would increase Medicare beneficiaries out-of-pocket costs by at least \$600 more in 2002 (\$2,800 over 7 years) would translate into \$443 more under the President's balanced budget plan.**

This claim is simply untrue. The President's balanced budget proposal has NO new Medicare cost increases. The comparison is \$600 in the Republican plan v. zero under the President's balanced budget.

The Republican \$600 out-of-pocket increase that has been documented is based on an analysis by the Department of Health and Human Services that simply assumes 50% of the \$270 billion in Republican Medicare cuts come from beneficiaries. This is actually a conservative assumption as the split between beneficiary to health care provider cuts in the July Republican Ways and Means Committee Medicare working document is 65% to 35%.

- (2) **Republicans are now claiming that the President's \$124 billion in Medicare savings really amounts to \$192 billion off of the Congressional Budget Office baseline.**

Wrong again. The CBO has never stated or suggested that the President's \$124 billion in savings proposals equates to a \$192 billion cut. In fact, the only analysis of the President's balanced budget proposal by CBO (June 16, 1995) assumed that the Administration's Medicare savings amounted to \$128 billion over seven years.

It is true that the CBO and OMB *baselines* are different -- about \$70 billion over seven years. But because there are different assumptions behind the baselines and the policies that affect them, one cannot simply subtract the Administration's Medicare baseline from the CBO baseline and add that number to the President's Medicare savings number.

The \$124 billion in savings included in the President's balanced budget represents assumed policy changes that produce specific savings amounts. Historically, despite significant variations in the CBO and Office and Management and Budget (OMB) baselines, scoring of specific policies have been very close. For example, the Medicare savings in the Health Security Act was scored by OMB to save \$118.3 billion; CBO scored them to be \$117.6 billion. Most recently, OMB scored the Medicare "extenders" to produce \$28 billion in savings; CBO scored them at \$30 billion. Therefore, there is no reason to believe that CBO would score the President's Medicare savings at anywhere near the \$192 billion suggested by the Republicans.

Baseline

September 14, 1995

TO: Dick Morris
FROM: Chris Jennings
RE: Request for Baseline Analysis

Attached is a quick explanation of the difference in CBO and OMB baselines for both Medicare and Medicaid programs. It is drafted in such a way to make a defensible case for arguing that our baseline is more advisable to use than the CBO baseline.

As you know, most elite economists will argue that the differences are not overly significant. Therefore, this group of "validators" might not be very receptive to suggestions that one baseline is better than another. Having said this, I think you'll find this analysis helpful to make our case.

Call me with questions.

Comparison of CBO and OMB Baselines Medicare

- The OMB baseline has been closer to actual spending than the CBO baseline for six of the past eight years for which there is data (FY 1987 - FY 1995).

Fiscal Year	OMB	CBO	Actual Spending
1987	78	80	80
1988	85	90	86*
1989	94	96	94*
1990	110	112	107*
1991	114	116	114*
1992	127	127	129
1993	143	142	143*
1994	164	167	160*

* indicates years in which OMB projection closer to actual spending than CBO projection

- Projecting baseline spending is a complex process requiring multiple assumptions. There are interactions between private and public spending that cannot always be anticipated. Small differences in assumptions can translate into large differences in projections.
- The difference between the President's Budget and CBO February Medicare baselines is initially relatively small but grows larger over time. Over 7 years, CBO projects \$71 billion more in spending than OMB, or a difference of only 4 percent. This difference in spending is largely driven by a few spending categories.
 - The largest differences are in home health, physicians, hospice, and SNF expenditures. Different assumptions about the rate of growth in these services results in large differences over time.
 - Projecting physician spending is difficult because the rate of growth in expenditures has been unstable year to year. This is most likely due to the changes occurring in the health marketplace, and to the large impact of the private sector on physician expenditures.
 - CBO and OMB projections for hospital spending, which represents the largest category of Medicare expenditures, are very similar.

- The process for making baseline projections is slightly different for CBO versus OMB. One explanation for this difference is OMB's access to data which CBO does not have.
 - CBO only has access to aggregated expenditure data from the treasury while OMB, through HCFA, has access to historical data from carriers, who process Part B claims, and intermediaries, who process Part A claims, which provides them with more detailed data including utilization.

Comparison of CBO and OMB Baselines

MEDICAID:

- The OMB Medicaid baseline is developed by HCFA actuaries by using a detailed and sophisticated forecasting model that includes:
 - historical spending data;
 - the most recent estimates from the states;
 - the Administration's economic and demographic assumptions; and
 - assumptions for changes in enrollment (both Medicaid only and for linked programs -- AFDC and SSI).
- CBO develops its Medicaid baseline by using the same historical data with fewer details of beneficiary and benefits categories.
- The CBO and OMB baselines are driven by assumptions. Minor differences can result in significant dollar differences between the original estimates and the actual spending.
 - National projections are difficult because programmatic changes in state programs can completely change actual spending (e.g. DSH).
- There is a \$64 billion difference between the OMB and the CBO baseline projections over the next seven years. There are significant differences in assumptions about program growth that produce this difference.

For example, the growth in enrollees and benefits are significantly different.

- For enrollee growth, the OMB projected growth rate is 3.8 percent and the CBO rate is 3.0 percent;
- Long-term care spending is projected to grow 8.2 percent annually under the OMB baseline compared to 10 percent for CBO; and
- OMB projects the DSH program to grow at 6.8 percent annually compared to 3.6 percent for CBO.

These result in an overall annual growth rate for the CBO baseline of 10.2 percent compared to the OMB baseline which grows at 9.3 percent annually. The corresponding per capita growth rates are 7.0 percent and 5.3 percent for CBO and OMB respectively.

MEDICAID

CBO and OMB Baseline Projections
(Federal Outlays in Billions)

Fiscal Year	Projections*		Actual
	CBO	OMB	
1987	\$26	\$26	\$27
1988	\$30	\$28	\$30
1989	\$34	\$33	\$35
1990	\$38	\$37	\$41
1991	\$45	\$45	\$53
1992	\$57	\$60	\$68
1993	\$80	\$85	\$76
1994	\$92	\$92	\$82
1995	\$96	\$96	**\$88
1996	\$99	\$96	
1997	\$110	\$105	
1998	\$122	\$115	
1999	\$135	\$125	
2000	\$148	\$136	
2001	\$163	\$150	
2002	\$178	\$164	

*February OMB and January CBO projections beginning in 1986.

**Latest HCFA estimate of 1995 spending.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
LEGISLATIVE AFFAIRS

PHONE: 395-4790 / FAX: 395-3729

TO: Chris Jennings

FROM:

☒ CHUCK KIEFFER / Haas ☐ CHUCK KONIGSBERG

☐ LISA KOUNTOUPOS ☐ LYDIA MUNIZ

☐ KRISTEN PANERALI ☐ NANCY BRANDEL

☐ EMILY KIM ☐ EVA SHEIBAR

COMMENTS: CBO letter

FAX NUMBER: 6-7431

PAGES: 3

PHONE NUMBER: _____

(includes cover page)



CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

June E. O'Neill
Director

June 16, 1995

Honorable Pete V. Domenici
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

At your request, the Congressional Budget Office (CBO) has reviewed "The President's Economic Plan: A Balanced Budget That Puts People First," as released on June 13, 1995. The President's June budgetary plan incorporates most of the elements of the budget submitted by the President in February, with additional reductions in spending and increases in taxes designed to make further reductions in the federal deficit. As explained by the staff of the Office of Management and Budget (OMB), these additional budgetary savings are "indicative proposals" that as yet do not represent specific policies. Therefore, a detailed program-by-program evaluation of the President's June budget is not possible at this time. CBO has prepared, however, a preliminary assessment of the budgetary effect of the President's new plan.

The attached table provides a rough estimate of how the President's June budget plan would affect the total deficit, if the plan's assumptions were translated into specific policies. As you requested, the table displays the President's program as changes from CBO's April budget baseline. CBO has adjusted the baseline deficit to reflect the projected effects of rebenchmarking the consumer price index (CPI). In 1998, the weights of the various categories of consumption in the CPI will change from the current 1982-1984 basis to a 1993-1995 basis. The House- and Senate-passed budget resolutions assume that this change will reduce the growth of the overall CPI by about two-tenths of a percentage point a year.

For defense and nondefense discretionary spending, CBO's estimate assumes the level of outlays specified in the President's plan. Because CBO's baseline for these programs is higher than the Administration's baseline, the amounts of discretionary savings shown in the table are larger than the Administration's figures. For mandatory spending programs and revenues, CBO's preliminary assessment assumes that the changes from the baseline would be the same as those estimated by the Administration. The revenue changes differ from those shown in the Administration's table, because a reduction in Federal Reserve earnings associated with an assumed drop in interest rates is excluded. CBO has estimated the resulting amount of debt service savings using the interest rates that underlie our April baseline.

-79-

Honorable Pete V. Domenici
Page 2

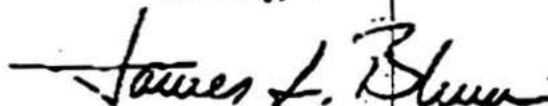
Using these assumptions, the budget deficit under the President's policies would represent about 2 percent of gross domestic product (GDP) in 2005. This is well below CBO's baseline deficit, which averages more than 3 percent of GDP over the 1995-2005 period. This reduction in the deficit would allow a modest drop in interest rates compared to those in CBO's baseline. The reduction in rates would be significantly less, however, than would arise if the budget were on a path to balance. Because of the uncertainties involved, the attached table does not incorporate any drop in interest rates attributable to deficit reduction. Even if some allowance were made for lower interest rates, however, the projected deficits under the President's June budget would likely remain near \$200 billion through 2005.

The differences between the CBO and OMB estimates of the deficit stem primarily from differences in budget baselines. As shown at the bottom of the table, CBO projects that the budget deficit under current policies will reach \$454 billion in 2005, assuming that discretionary spending keeps pace with inflation after the expiration of the discretionary spending limits in 1998. OMB projects a baseline deficit of only \$266 billion for 2005. The differences between the baselines reflect underlying differences in both economic and other estimating assumptions. Although the economic assumptions of CBO and the Administration appear quite similar, the differences are sufficient to produce noticeable differences in budget projections. On average, the Administration foresees slightly faster economic growth between now and 2005 than does CBO. Also, CBO and the Administration differ in their projections of the growth of the consumer price index, which affects indexed benefit programs and tax brackets, relative to that of the GDP deflator, which affects estimates of taxable income. CBO assumes that the CPI will grow significantly faster than the deflator, whereas the Administration assumes only slightly faster growth.

Estimating differences unrelated to economic differences also add to CBO's estimate of the baseline deficit compared with the Administration's estimates. Much of the difference in projected spending can be found in the Medicare and Medicaid programs. Although CBO believes that the growth of these programs has slowed from the extremely high rates of recent years, it is not quite as optimistic as the Administration about the slowdown.

If you wish further details on this analysis, we will be pleased to provide them.

Sincerely,



for June E. O'Neill
Director

cc: Honorable J. James Exon
Ranking Minority Member

Identical letter sent to Honorable John R. Kasich.

- 80 -

18-JUN-95

THE PRESIDENT
(by fiscalBUDGETARY PROPOSALS
(in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1998-2002	2003
CBO Baseline Deficit With Discretionary Inflation After 1995 /a	210	230	232	260	299	310	348	384	422	472	NA	NA
Adjustment for Rebenchmarking of the Consumer Price Index	0	0	0	-1	-3	-8	-10	-12	-14	-18	NA	NA
Adjusted Baseline Deficit	210	230	232	269	296	310	340	372	406	454	NA	NA
President's Budgetary Proposal /b: Discretionary spending	-5	-8	-16	-30	-45	-53	-62	-70	-84	-112	-219	-505
Mandatory spending												
Medicare	-4	-6	-10	-16	-23	-30	-38	-45	-55	-67	-126	-285
Medicaid	-4	-4	-8	-7	-9	-11	-13	-16	-17	-19	-54	-103
Poverty programs	-2	-4	-5	-6	-8	-7	-8	-8	-8	-8	-38	-83
Other	-2	-2	-1	3	1	1	-2	-2	-2	-1	2	2
Subtotal	-11	-16	-22	-26	-35	-40	-62	-70	-82	-85	-218	-485
Revenues /c, d	3	10	11	14	16	20	21	21	26	23	87	169
Corporate subsidies /d	-1	-2	-3	-4	-5	-5	-6	-8	-8	-6	-25	-43
Debt service /e	-1	-2	-3	-6	-10	-15	-22	-31	-42	-55	-57	-183
Total changes	-14	-18	-33	-62	-77	-89	-130	-185	-198	-246	-422	-1031
Deficit Under the President's Budgetary Proposal	196	212	199	213	220	211	210	207	208	209	NA	NA
Memorandum:												
CBO baseline deficit /a	210	230	232	265	296	310	340	372	406	454	NA	NA
OMB baseline deficit /a	201	218	208	221	228	235	240	248	255	266	NA	NA
OMB minus CBO	-9	-12	-23	-44	-67	-75	-100	-124	-153	-186	-331	-786

SOURCES: Congressional Budget Office; Office of Management and Budget

NOTES: Numbers do not add because of rounding. NA = Not applicable.

- Assumes compliance with discretionary spending limits through 1998. Discretionary spending is assumed to increase at the rate of inflation after that.
- Discretionary savings equal the difference between CBO's baseline discretionary spending and the levels of discretionary spending specified in "The President's Economic Plan," released June 13, 1995. Mandatory spending savings and revenue changes are at the levels specified in the President's plan. CBO has not reestimated the savings because there is not sufficient detail available at this time to allow a reestimate.
- Excludes estimated loss of revenues from the Federal Reserve associated with the Administration's anticipated reductions in interest rates.
- Revenue losses are shown with a positive sign because they increase the deficit.
- Debt service represents CBO's estimate of the reduction in interest payments that would result directly from the non-interest savings shown in this table. It does not include any possible effect from lower interest rates that might result from lower deficits.

-81-

Medicare Scoring Issues

1. What are the savings associated with managed care? Are there any new data that have dramatically altered the estimates?

In particular, if the additional costs charged for remaining in fee-for-service are not too great, what kind of participation rate would one expect in a managed care option? Also, would the healthier individuals be the ones more inclined to use the managed care option? After answering these questions, how would the savings from a new managed care option compare to the \$270 Billion of savings called for in the Budget Resolution?

2. If the savings in the Medicare program are insufficient to meet the savings requirement, then the Republicans are considering using some type of automatic sequester that would automatically cause provider and/or beneficiary cuts to go into effect once the savings shortfall became real. If it is currently estimated that these cuts would in fact be needed, these cuts should be treated as real cuts, not some hypothetical abstraction.

3. The issues of how we might change Medicare and the effects of such changes are critical. These issues should not be diminished by any scoring gimmicks, baseline obfuscation, or other such tricks. A cut is a cut. If savings from efficiencies such as managed care do not yield the required savings, then real cuts will occur to providers and/or beneficiaries.

Medicare Scoring Issues

1. What are the savings associated with managed care? Are there any new data that have dramatically altered the estimates?

In particular, if the additional costs charged for remaining in fee-for-service are not too great, what kind of participation rate would one expect in a managed care option? Also, would the healthier individuals be the ones more inclined to use the managed care option? After answering these questions, how would the savings from a new managed care option compare to the \$270 Billion of savings called for in the Budget Resolution?

2. If the savings in the Medicare program are insufficient to meet the savings requirement, then the Republicans are considering using some type of automatic sequester that would automatically cause provider and/or beneficiary cuts to go into effect once the savings shortfall became real. If it is currently estimated that these cuts would in fact be needed, these cuts should be treated as real cuts, not some hypothetical abstraction.

3. The issues of how we might change Medicare and the effects of such changes are critical. These issues should not be diminished by any scoring gimmicks, baseline obfuscation, or other such tricks. A cut is a cut. If savings from efficiencies such as managed care do not yield the required savings, then real cuts will occur to providers and/or beneficiaries.

CBO and OMB Medicare Baseline Differences

- There are really two separate issues here: (1) the historical difference between the CBO and OMB Medicare baselines, and (2) the differences between CBO and OMB scoring of individual Medicare savings proposals.
 - The difference in the baselines is independent of any proposals for Medicare savings, and
 - One cannot assume from this that CBO and OMB would score a set of individual Medicare savings proposals with any significant deviation.

1. Differences in the Baselines

- There have always been differences between the CBO and OMB Medicare baselines. These differences tend to be quite narrow in the current year, and grow during the out-years.
- As CBO said in its April 1995 analysis of the FY96 President's Budget, "given the size of [the Medicare and Medicaid] programs and the uncertainty about their future costs, the projections of CBO and the Administration are not very far apart."
 - For FY96, CBO's estimate of Medicare spending is only about \$4 billion higher than OMB, but this difference grows in succeeding years; in 2002, the difference is \$18 billion.
 - Over the period from 1996-2002, we estimate that the total difference between the CBO and OMB Medicare benefits baselines is about \$70 billion.
- OMB's Medicare baseline projections are calculated by the HCFA actuaries, who use the Administration's economic assumptions. For FY96, the actuaries reduced projected Medicare spending by \$40 billion over the 1996-2000 period that the President's Budget covers.
 - The actuaries expect spending in the Medicare program over this time to increase at a slower rate than in recent years.
 - This projected slowdown is the result of several factors. In particular, Hospital Insurance (HI) expenditures have grown more slowly than expected.

- Slower HI growth results primarily from lower hospital cost inflation and slower growth in complexity of Medicare inpatient cases.
- CBO's projections indicate that it agrees that Medicare spending will rise at a slower rate over the next five years, although CBO does not expect the reduction to be quite as significant.
- CBO's January 1995 *Economic and Budget Outlook* indicates that CBO is less optimistic about the slowdown in Medicare spending because of its view that the apparent slowing in the growth of payments for hospitalizations and physician visits is roughly offset by fast-growing costs, other services such as home health care and skilled nursing facilities.

2. Differences in "Scoring" Savings Proposals

- Determining how CBO would score the President's Medicare savings proposals is an almost impossible task. While it might seem that one could simply figure out the percentage by which the CBO baseline is higher than the OMB baseline, and multiply the total of the savings proposals by that amount, that calculation would not be even close to accurate.
- The reason is that the CBO baseline is composed of many separate baselines for different services and providers.
- Thus, scoring of specific savings proposals would really have to be done by CBO, proposal by proposal using detailed specifications, against the appropriate baseline.
- Recent history reflects that these baseline differences are not that important when it comes to scoring specific savings proposals. For example:
 - The Health Security Act contained Medicare savings proposals that OMB estimated would save \$118.3 billion over the 1995-2000 period. CBO scored these same proposals as saving \$117.6 on its baseline, which was higher than ours.
 - The President's FY96 budget contained four Medicare "extenders" from OBRA93 that OMB estimated would save \$28 billion over the 1995-2000 period. CBO has since scored these same proposals as saving only slightly more, \$30 billion.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

June 14, 1995

Honorable Martin Olav Sabo
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

Martin
Dear Representative Sabo:

I wanted to follow up on our brief discussion at the Caucus this morning about the differences between the CBO and OMB baselines as they relate to Medicare.

Actually, there are two issues here: (1) the historical difference between the CBO and OMB Medicare baselines in the aggregate, and (2) the differences between CBO and OMB scoring of individual Medicare savings proposals. What I was trying to say today was that:

- the difference in the baselines is independent of any proposals for Medicare savings, and
- one cannot assume that CBO and OMB would score a set of individual Medicare savings proposals with any significant deviation.

The numbers in the materials we discussed with the Caucus today are the most accurate way to compare the President's Medicare savings proposals with the Republican proposals.

CBO and OMB Baseline Differences

As you know, there have always been differences between the CBO and OMB Medicare baselines. These differences tend to be quite narrow in the current year, and grow during the out-years. As CBO said in its April 1995 analysis of the FY96 President's Budget, "given the size of [the Medicare and Medicaid] programs and the uncertainty about their future costs, the projections of CBO and the Administration are not very far apart."

Over the period from 1996-2002, we estimate that the total difference between the CBO and OMB Medicare benefits baselines is about \$70 billion. For FY96, CBO's estimate of Medicare spending is only about \$4 billion higher than OMB, but this difference grows in succeeding years; in 2002, the difference is \$18 billion.

OMB's Medicare baseline projections are calculated by the HCFA actuaries, who use the Administration's economic assumptions. The projections for FY96 reduced projected Medicare

spending by \$40 billion over the 1996-2000 period that the President's Budget covers. We expect spending in the Medicare program over this time to increase at a slower rate than in recent years.

This projected slowdown is the result of several factors. In particular, Hospital Insurance (HI) expenditures have grown more slowly than we expected at the time we put together the budget for FY95. Slower HI growth results primarily from a fall in forecasted hospital cost inflation and the slower growth in complexity of Medicare inpatient cases.

CBO's projections indicate that it shares our view that Medicare spending will rise at a slower rate over the next five years, although CBO does not expect the reduction to be quite as significant.

CBO forecasts 9.7% average annual growth in baseline outlays, while OMB forecasts 9.1% average annual growth, for a cumulative difference of \$40 billion over the 1996-2000 period. CBO's January 1995 *Economic and Budget Outlook* indicates that CBO is less optimistic about the slowdown in Medicare spending because it estimates that the apparent slowing in the growth of payments for hospitalizations and physician visits is roughly offset by fast-growing costs for care in other settings, particularly for home health care and skilled nursing facilities.

CBO vs. OMB Scoring of Medicare Savings Proposals

Determining how CBO would score the President's Medicare savings proposals is an almost impossible task. Although it might seem that one could simply figure out the percentage by which the CBO baseline is higher than the OMB baseline, and multiply the total of our savings proposals by that amount, that calculation would not be accurate. In fact, our analysts -- and HCFA's professional Medicare actuaries -- tell me that it might not even be in the ballpark.

The reason is that the CBO baseline is not a monolithic stream of numbers; rather, it is composed of many separate baselines for different services and providers. Thus, for example, a proposal affecting clinical laboratories would have to be scored against the clinical laboratories baseline, which might be lower than the OMB baseline for the same service, even though in the aggregate, CBO's baseline is higher. Thus, scoring of specific savings proposals would really have to be done by CBO, proposal by proposal using detailed specifications, against the appropriate baseline.

I understand your concern about the uncertainty and complexity that baseline differences introduce into the scoring of Medicare savings proposals. Unfortunately, we can do nothing about these baseline differences; the good news is that recent

history reflects that they are not that important when it comes to scoring specific savings proposals.

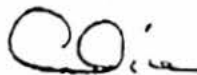
Let me mention two examples:

- First, you will recall that the Health Security Act contained Medicare savings proposals that we estimated would save \$118.3 billion over the 1995-2000 period. CBO scored these same proposals as saving \$117.6 on its baseline, which was higher than ours.

- Second, and most recently, our FY96 budget contained four Medicare "extenders" from OBRA93 that we estimated would save \$28 billion over the 1995-2000 period. CBO has since scored these same proposals as saving only slightly more, \$30 billion.

I hope this letter has answered some of your questions about our health reform proposal. Your support is critical as we work with the Congress to achieve what we both want: a balanced budget that is fair and reasonable. I look forward to working with you in the coming weeks.

Sincerely,



Alice M. Rivlin
Director

Hope this helps.

CBO VS. OMB

Q. THE CONGRESSIONAL BUDGET OFFICE SAYS THAT THE ADMINISTRATION'S NUMBERS ARE WAY-OFF WHEN THEY USE THE CBO BASELINE. ISN'T THIS JUST ANOTHER ROSY SCENARIO?

A. Absolutely not. We have a solid balanced budget plan based on numbers that are consistent, conservative and professional. Indeed, using the assumptions of the top private sector forecasters, our plan would get to balance.

There are some small differences between CBO and OMB in growth estimates and the health care baseline that get magnified over a 10 year period. We believe that our baseline is superior. Even CBO admits that our growth estimates are more consistent with the Blue Chip than theirs are. And our health care estimates are done by top, career health professionals at the Health Care Finance Administration, who have the best and most current information.

Indeed, CBO acknowledges that the Administration is closer to the Blue Chip than the CBO on the key economic assumptions that affect the deficit, including growth, interest rates and the GDP deflator.

Yet, while we believe our baseline is the best and they clearly believe that their baseline is the best, the key thing is that neither side should let honest accounting differences be an excuse to not work together to avoid a train wreck and to come up with the type of balanced budget plan that the American people could support.

FOLLOW UP: BUT DIDN'T YOU PROMISE IN 1993 TO USE CBO PROJECTIONS?

In his first budget, the President wanted to take away any disputes over numbers. Remember, Administration projections didn't have the best reputation after 12 years of magic asterisks and smoke and mirrors. Our accurate projections and success on the budget over the past two years have restored faith in an Administration's ability to put forward reasonable, fair budget projections. Indeed, we have been more on target than CBO in projecting the deficit so far. So particularly when the Administration numbers are exactly in line with the top private sector forecasters, it is appropriate and necessary for the President to rely on OMB for his budget projections.

BACKGROUND INFORMATION ON THE OMB/CBO BASELINE DIFFERENCES

- By our best estimates, using the economic assumptions of the Blue Chip forecasts and the career professionals at HCFA (Health Care Finance Administration), the President's economic plan gets to a small surplus in the year 2005.
- *Indeed, CBO acknowledges that the Administration is closer to the Blue Chip than the CBO on three key economic assumptions that affect the deficit, including growth, interest rates and the GDP deflator.*
- A Federal Reserve Board of Philadelphia study of 59 top economists projected average real GDP growth of 2.6% over ten years. The Administration has projected average growth of slightly under 2.5%. Therefore, the Administration's numbers are somewhat conservative compared to many top private sector economists.
- There are differences between the OMB and CBO baselines, but they are based on very small differences in two areas that appear more significant when they are extended over a 10 year period.
- Indeed, after the House takes into account its economic assumptions based on the CPI, growth and interest rates, 60% of the baseline differential is already evaporated. So the baseline difference between the Administration and the House is actually not so significant.
- The record has proved that OMB was more accurate in its deficit forecast than CBO when it presented the Administration's 1993 economic plan.

GROWTH RATES:

- **Very Small Differences:** We assume growth at slightly under 2.5% over the next several years. CBO is a little lower, around 2.3%. Yet, with the growth dividend that the House Budget Committee is taking with its plan -- and we are not -- the difference is virtually non-existent. CBO stated that "the economic assumptions of the Clinton Administration and the Congressional Budget Office are similar," and that our assumptions actually lead to more conservative deficit estimates in the first two years of our forecast.
- **Consistent with Outside Forecasters:** Our proposals are consistent with those of the top outside forecasters. Our growth forecasts are virtually identical to the Blue Chip between 1997-2001, and indeed, in both 1999 and 2000, the Blue Chip forecasts .4 and .3 higher growth than the Administration does. Meyer & Associates calls for higher growth than the Administration in 1999, 2000, 2001 and the same in 2002. DRI is higher than we are for two years, lower than we are for two years and the same two years. Ray Fair has higher growth forecasts every year between 1998 and 2001. So it is clear that we have conservative growth estimates that are consistent with the top private sector forecasters.

Indeed, the April, 1995 CBO document that compares CBO and OMB states that *"the Administration is generally closer than the CBO to the Blue Chip's long-range projections. The Blue Chip indicates the same average growth over the 1997-2000 period as the Administration and has similar projections for interest rates and the GDP deflator."*

- **This is Very Different from the Rosy Scenarios of the Past:** The Administration's growth forecast is only about .1% higher than CBO's. This is very different from the rosy scenarios that characterized Republican Administrations. For example, Stockman's FY1982 budget predicted growth a whopping 1.3% higher than the CBO. The next year, he came back again with a budget that predicted growth an average of 1.0% higher on average each year for his plan. All four years of the Bush Administration called for budgets with growth rates that were on average .75% higher every year than the CBO projection. So when you see the differences of .1% or .2% in the CBO and OMB growth rates, you can see that most years they are 1/10th to 1/7th the degree of differential that we saw during the Bush/Reagan years.

- **"Wedge Factor" Differences are Narrow:** The CBO indicates the difference between the estimates for the CPI and the GDP deflator has an important effect on the estimates of the deficit. This difference is called a "wedge factor." The Administration's estimate of wedge is similar to the Blue Chip's estimate [assuming that both CBO and the Blue Chip make the adjustment for re-benchmarking the CPI that CBO has already announced it will do in its summer update.]

HEALTH CARE:

- One of the two main reason for the difference in the CBO and OMB baselines is that the Administration assumes slightly less growth in Medicare and Medicaid.
- We should recall that these numbers come from the same HCFA actuaries that the Republicans frequently use as authorities when discussing the need to strengthen the Medicare Trust Fund. Certainly, they could not be questioning their credibility now.
- It is important to understand that the Medicare and Medicaid numbers are prepared by the Office of Actuary in the Health Care Financing Administration. The actuaries are career professionals who have been doing these same numbers through the last two Republican Administrations. Any notion that their estimates were affected by anything other than their professional judgment cannot be justified.
- The whole difference comes from the fact that on Medicaid the Administration projects 9.3% growth and the CBO projects 9.9% and on Medicare the Administration projects 9.1% growth and CBO projects 9.7%
- While we believe these are the differences of honorable career professionals on both sides, we do believe that our numbers are more accurate.
- On Medicaid, the Administration has higher beneficiary growth rates, yet they end

up with slightly higher overall growth assumptions because the Administration's estimates of per beneficiary costs are lower than CBO's 5.3% and 7.0%. Yet, the HCFA estimates are based on more up-to-date Social Security numbers regarding disabled beneficiaries in Medicaid and up-to-date Treasury information on Medicaid outlays -- which catches current changing trends.

- On Medicare, the Administration and CBO baselines for inpatient hospital services (which represent half of Medicare costs) are virtually identical. The only real difference is that while both believe the high growth rates in home health and skilled nursing facility costs will come down, the Administration projects them coming down somewhat faster.

ADMINISTRATION'S GROWTH NUMBERS VS. BLUE CHIP'S: The chart below shows that the Administration's projection over five years comes to the same average growth as the Blue Chip, while the CBO's is somewhat pessimistic relative to the consensus of private forecasters.

LONG-RANGE FORECASTS OF GDP GROWTH 1997 THROUGH 2001

	1997	1998	1999	2000	2001
Blue Chip (March)	2.0	2.3	2.9	2.8	2.4
Administration	2.5	2.5	2.5	2.5	2.4
CBO	2.4	2.3	2.3	2.3	2.3

Conference Agreement

Concurrent Resolution on the Budget -- Fiscal Year 1996

Early Highlights

June 23, 1995

Deficits and Spending

- Balance is achieved in seven years by first reducing the rate of growth in total spending.
- Total federal spending grows from \$1.5 trillion in 1995 to \$1.875 trillion in 2002. Annual growth rate of 3.0 percent.
- The federal deficit that would grow next year to nearly \$200 billion without changes in policy, will be reduced to \$170 billion and thereafter decline to a surplus of nearly \$7 billion in 2002.
- Total deficit reduction over the next seven years would reach nearly \$960 billion.

Tax Reductions

- Tax reductions cannot occur until Committees have first met their spending reduction instructions.
- Committees report to the Budget Committees their spending reduction legislation by mid-September and CBO certifies that balance has been achieved in 2002 and a fiscal dividend equal to \$170 billion over seven years, \$50 billion in 2002 has been created.
- Once certification occurs, tax writing committees

would be instructed to report to the Budget Committees within five working days legislation that would reduce tax revenues up to but not to exceed \$245 billion over seven years, and not to exceed the fiscal dividend estimated to be \$50 billion in 2002.

- In no case can the tax cuts in 2002 result in the budget being out of balance.

Select Spending Programs

Medicare

- Medicare will grow from \$178 billion this year to \$274 billion in 2002. Medicare spending will grow at an annual rate of 6.4 percent. Total Medicare spending over the next seven years will top \$1.6 trillion.
- Medicare solvency is insured through 2005.
- Relative to the unsustainable current spending path of Medicare, the conference agreement reduces spending \$270 billion over the next seven years.

Medicaid

- Conference agreement assumes a Medicaid block grant program that would reduce the rate of growth in the program from its current rate of 10.5 percent gradually over the next seven year period reaching about 4 percent in 2002.
- Medicaid spending grows from \$90 billion this year to over \$124 billion in 2002.
- Relative to a continuation of unsustainable growth in this program, savings of \$182 billion are achieved over the next seven years.

Defense

- The conference agreement assumes that defense spending (outlays) will decline from \$270 billion this year to \$265 billion in 1998, and then return to annual spending levels of near \$271 billion in 2001 and 2002.
- Defense spending relative to President Clinton's request this year will increase nearly \$33.1 billion over the next seven years.
- In the Senate, firewalls between defense spending and other discretionary spending would be established for three years.

Nondefense Spending

- Nondefense discretionary appropriations would decline from \$278 billion this year to \$244 billion in 2002.
- Relative to current law spending, these discretionary programs would be reduced \$190 billion over the next seven years through program terminations, consolidations, and returning their program management back to the states.
- The conference agreement assumes the termination of the Commerce Department, but leaves to the Committees of Jurisdiction the determination of other Departmental closures.

Other Programs

- The conference agreement assumes welfare reform such that programs are reformed and savings of nearly \$100 billion over the next seven years.
- The conference agreement assumes reform of agriculture price support programs totalling \$13.3 billion over the next seven years. Agriculture price support programs will still expend \$45 billion over the next seven years.
- The conference agreement assumes reform of federal student loan programs \$10 billion over the next seven years. Reforms, it is assumed would be targeted on graduate and professional students.
- The conference agreement assumes nearly full funding of the Violent Crime Reduction Trust Fund.

CONFERENCE AGREEMENT BUDGET AGGREGATES

(Dollars in billions)

	1995	1996	1997	1998	1999	2000	2001	2002
Discretionary:								
Defense.....	270	264	265	265	268	271	271	271
Nondefense.....	278	270	259	252	247	249	245	244
Subtotal discretionary.....	548	534	524	517	516	520	516	515
Mandatory:								
Social Security.....	334	352	371	391	411	433	456	480
Medicare.....	178	191	202	214	226	239	255	274
Medicaid.....	89	96	102	106	110	115	119	124
Other mandatory.....	146	156	162	163	177	186	192	200
Net interest.....	235	259	265	269	276	281	282	283
Total outlays.....	1530	1586	1625	1660	1716	1774	1820	1875
Revenues.....	1355	1417	1475	1546	1618	1698	1789	1883
Resulting deficit/surplus.....	-175	-170	-152	-116	-100	-80	-33	7

NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis.

Prepared by SBC Majority Staff,

22-Jun-95

CONFERENCE AGREEMENT COMPARED TO BASELINE

(Dollars in billions)

	1996	1997	1998	1999	2000	5-yr total	2001	2002	Grand total
Current Law Deficit.....	198	215	211	225	238		226	229	
Discretionary:									
Defense.....	6	8	8	9	9	40	9	9	58
Nondefense.....	-10	-23	-27	-31	-31	-121	-34	-35	-190
Mandatory:									
Social Security.....	--	--	--	--	--	--	--	--	--
Medicare.....	-8	-18	-27	-37	-49	-139	-60	-71	-270
Medicaid.....	-4	-8	-16	-24	-33	-85	-43	-54	-182
Other mandatory.....	-10	-19	-25	-26	-29	-108	-30	-36	-174
Revenues.....	0	0	0	0	0	2	1	1	3
Total policy changes.....	-26	-59	-86	-108	-132	-411	-158	-187	-756
Debt service.....	-1	-5	-9	-16	-24	-55	-35	-48	-137
Total deficit reduction.....	-27	-63	-95	-124	-156	-465	-192	-235	-958
Resulting deficit/surplus....	170	152	116	100	80		33	-7	

NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis.

Prepared by SBC Majority Staff, 22-Jan-95

CONFERENCE AGREEMENT COMPARED TO BASELINE

(Dollars in billions)

	1996	1997	1998	1999	2000	5-yr total	2001	2002	Grand total
Current Law Deficit.....	198	215	211	225	238		226	229	
Discretionary:									
Defense.....	6	8	8	9	9	40	9	9	58
Nondefense.....	-10	-23	-27	-31	-31	-121	-34	-35	-190
Mandatory:									
Social Security.....	-	-	-	-	-	-	-	-	-
Medicare.....	-8	-18	-27	-37	-49	-139	-60	-71	-270
Medicaid.....	-4	-8	-16	-24	-33	-85	-43	-54	-182
Other mandatory.....	-10	-19	-25	-26	-29	-108	-30	-36	-174
Revenues.....	0	0	0	0	0	2	1	1	3
Total policy changes.....	-26	-59	-86	-108	-132	-411	-158	-187	-756
Debt service.....	-1	-5	-9	-16	-24	-55	-35	-48	-137
Total deficit reduction.....	-27	-63	-95	-124	-156	-465	-192	-235	-958
Resulting deficit/surplus....	170	152	116	100	80		33	-7	

NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis.
 Prepared by SBC Majority Staff, 22-Jun-95

MEDICARE SPENDING UNDER THE BALANCED BUDGET PROPOSALS

Medicare spending, savings and growth rates have become an important point of comparison between the President's and the Republicans' balanced budget plans. However, confusion over the right way to compare the Medicare proposals has surfaced. Specifically, the use of the Administration's Medicare baseline rather than the Congressional Budget Office's (CBO's) baseline has been used to create the misperception that the President's plan for Medicare would look more like the Republicans' plan if a common baseline were used. However, differences in estimating the baseline do not change the fact that the level of cuts called for by the Republicans are more than double those of the President's plan.

- **The baseline differences between the Congressional Budget Office (CBO) and the Administration are not large.**

Between 1996 and 2002, the dollar-amount difference between the two baselines is \$71 billion -- only 4 percent of the total CBO baseline. The baselines for inpatient hospital services, which represent nearly half of Medicare spending, are virtually identical.

- Eventually, comparisons of the plans will be made by pricing or "scoring" specific policies on the same baseline. Until such policies are specified, comparisons of the spending and savings under the plans can be made using simplifying assumptions.
- **One way to compare the President's plan to the Republican plan using the CBO baseline is to assume that the President's proportionate reduction in spending is the same under both baselines.**

The President's plan would reduce Medicare spending by 7% over the seven-year period, relative to the Republican plan, which reduces spending by 14%. Since this comparison describes the magnitude of the cut in relationship to the respective baseline, it takes the baseline issue out of the equation. This percent reduction could also be converted into a dollar amount: if the CBO baseline were reduced by 7%, then the President's plan would save \$130 billion.

- **Another approach was taken by the CBO who, in a letter to Senator Domenici, assessed the President's Medicare savings under the CBO baseline by assuming the President's savings are the same under both baselines.**

This means that the \$124 billion in savings projected off of the Administration baseline would be \$124 billion off of the CBO baseline as well. However, the CBO spending levels for the President's plan would be higher, since \$124 billion is subtracted from a higher baseline, yielding higher proposed spending.

Given the fact that CBO and Administration have frequently scored Medicare policies similarly in the past, this approach offers an approximation of the President's plan under

the CBO baseline. Recently, for example, the CBO scored the Medicare "extenders" in the President's 1996 budget at \$30 billion, whereas the Administration estimated their savings at \$28 billion. Similarly, the CBO and Administration estimates of the savings under the President's health reform bill were less than \$1 billion different over a five-year period.

However, the similarity in scoring depends on the specific set of policies. While hospital and premium policies have been scored similarly in the past, there have been differences in areas where baseline projections differ.

- **An incorrect way of comparing the President's plan to the Republican plan is to assume that the President's spending is the same under both baselines.**

It has been asserted that the President's plan has set down what he believes is an acceptable spending level, and that this represents a commitment to this spending level regardless of baselines. For instance, the total Medicare spending under the President's plan of \$1,675 billion over seven years -- estimated from the Administration's baseline -- would still be \$1,675 billion under the CBO baseline.

This is flawed logic, however. Projections of the spending that results from a set of policy changes are made by modifying baseline spending projections. Thus, if there are different baseline spending projections, the spending under the proposed law will be different. Assuming that the Medicare spending under the proposed law is fixed and does not change when different baseline assumptions are used is incorrect.

The President's commitment is not to a specific spending number, but a set of policies that result in that spending number. To reach this spending level on the CBO baseline would require a different set of policies -- that produce much deeper cuts than those of the President and potentially impose new out-of-pocket costs on beneficiaries.

Desperate Republicans Continue Medicare Misinformation Campaign

Republicans Cannot Defend Their Medicare Cuts Without Resorting to Distortions:

- (1) **Republicans claim that the same analysis that shows that their plan would increase Medicare beneficiaries out-of-pocket costs by at least \$600 more in 2002 (\$2,800 over 7 years) would translate into \$443 more under the President's balanced budget plan.**

This claim is simply untrue. The President's balanced budget proposal has NO new Medicare cost increases. The comparison is \$600 in the Republican plan v. zero under the President's balanced budget.

The Republican \$600 out-of-pocket increase that has been documented is based on an analysis by the Department of Health and Human Services that simply assumes 50% of the \$270 billion in Republican Medicare cuts come from beneficiaries. This is actually a conservative assumption as the split between beneficiary to health care provider cuts in the July Republican Ways and Means Committee Medicare working document is 65% to 35%.

- (2) **Republicans are now claiming that the President's \$124 billion in Medicare savings really amounts to \$192 billion off of the Congressional Budget Office baseline.**

Wrong again. The CBO has never stated or suggested that the President's \$124 billion in savings proposals equates to a \$192 billion cut. In fact, the only analysis of the President's balanced budget proposal by CBO (June 16, 1995) assumed that the Administration's Medicare savings amounted to \$128 billion over seven years.

It is true that the CBO and OMB *baselines* are different -- about \$70 billion over seven years. But because there are different assumptions behind the baselines and the policies that affect them, one cannot simply subtract the Administration's Medicare baseline from the CBO baseline and add that number to the President's Medicare savings number.

The \$124 billion in savings included in the President's balanced budget represents assumed policy changes that produce specific savings amounts. Historically, despite significant variations in the CBO and Office of Management and Budget (OMB) baselines, scoring of specific policies have been very close. For example, the Medicare savings in the Health Security Act was scored by OMB to save \$118.3 billion; CBO scored them to be \$117.6 billion. Most recently, OMB scored the Medicare "extenders" to produce \$28 billion in savings; CBO scored them at \$30 billion. Therefore, there is no reason to believe that CBO would score the President's Medicare savings at anywhere near the \$192 billion suggested by the Republicans.

Baseline

September 14, 1995

TO: Dick Morris
FROM: Chris Jennings
RE: Request for Baseline Analysis

Attached is a quick explanation of the difference in CBO and OMB baselines for both Medicare and Medicaid programs. It is drafted in such a way to make a defensible case for arguing that our baseline is more advisable to use than the CBO baseline.

As you know, most elite economists will argue that the differences are not overly significant. Therefore, this group of "validators" might not be very receptive to suggestions that one baseline is better than another. Having said this, I think you'll find this analysis helpful to make our case.

Call me with questions.

Comparison of CBO and OMB Baselines Medicare

- The OMB baseline has been closer to actual spending than the CBO baseline for six of the past eight years for which there is data (FY 1987 - FY 1995).

Fiscal Year	OMB	CBO	Actual Spending
1987	78	80	80
1988	85	90	86*
1989	94	96	94*
1990	110	112	107*
1991	114	116	114*
1992	127	127	129
1993	143	142	143*
1994	164	167	160*

* indicates years in which OMB projection closer to actual spending than CBO projection

- Projecting baseline spending is a complex process requiring multiple assumptions. There are interactions between private and public spending that cannot always be anticipated. Small differences in assumptions can translate into large differences in projections.
- The difference between the President's Budget and CBO February Medicare baselines is initially relatively small but grows larger over time. Over 7 years, CBO projects \$71 billion more in spending than OMB, or a difference of only 4 percent. This difference in spending is largely driven by a few spending categories.
 - The largest differences are in home health, physicians, hospice, and SNF expenditures. Different assumptions about the rate of growth in these services results in large differences over time.
 - Projecting physician spending is difficult because the rate of growth in expenditures has been unstable year to year. This is most likely due to the changes occurring in the health marketplace, and to the large impact of the private sector on physician expenditures.
 - CBO and OMB projections for hospital spending, which represents the largest category of Medicare expenditures, are very similar.

- The process for making baseline projections is slightly different for CBO versus OMB. One explanation for this difference is OMB's access to data which CBO does not have.
 - CBO only has access to aggregated expenditure data from the treasury while OMB, through HCFA, has access to historical data from carriers, who process Part B claims, and intermediaries, who process Part A claims, which provides them with more detailed data including utilization.

Comparison of CBO and OMB Baselines

MEDICAID:

- The OMB Medicaid baseline is developed by HCFA actuaries by using a detailed and sophisticated forecasting model that includes:
 - historical spending data;
 - the most recent estimates from the states;
 - the Administration's economic and demographic assumptions; and
 - assumptions for changes in enrollment (both Medicaid only and for linked programs -- AFDC and SSI).
- CBO develops its Medicaid baseline by using the same historical data with fewer details of beneficiary and benefits categories.
- The CBO and OMB baselines are driven by assumptions. Minor differences can result in significant dollar differences between the original estimates and the actual spending.
 - National projections are difficult because programmatic changes in state programs can completely change actual spending (e.g. DSH).
- There is a \$64 billion difference between the OMB and the CBO baseline projections over the next seven years. There are significant differences in assumptions about program growth that produce this difference.

For example, the growth in enrollees and benefits are significantly different.

- For enrollee growth, the OMB projected growth rate is 3.8 percent and the CBO rate is 3.0 percent;
- Long-term care spending is projected to grow 8.2 percent annually under the OMB baseline compared to 10 percent for CBO; and
- OMB projects the DSH program to grow at 6.8 percent annually compared to 3.6 percent for CBO.

These result in an overall annual growth rate for the CBO baseline of 10.2 percent compared to the OMB baseline which grows at 9.3 percent annually. The corresponding per capita growth rates are 7.0 percent and 5.3 percent for CBO and OMB respectively.

MEDICAID

CBO and OMB Baseline Projections
(Federal Outlays in Billions)

Fiscal Year	Projections*		Actual
	CBO	OMB	
1987	\$26	\$26	\$27
1988	\$30	\$28	\$30
1989	\$34	\$33	\$35
1990	\$38	\$37	\$41
1991	\$45	\$45	\$53
1992	\$57	\$60	\$68
1993	\$80	\$85	\$76
1994	\$92	\$92	\$82
1995	\$96	\$96	**\$88
1996	\$99	\$96	
1997	\$110	\$105	
1998	\$122	\$115	
1999	\$135	\$125	
2000	\$148	\$136	
2001	\$163	\$150	
2002	\$178	\$164	

*February OMB and January CBO projections beginning in 1986.

**Latest HCFA estimate of 1995 spending.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
LEGISLATIVE AFFAIRS

PHONE: 395-4790 / FAX: 395-3729

TO: Chris Jennings

FROM:

☒ CHUCK KIEFFER / Haas

☐ CHUCK KONIGSBERG

☐ LISA KOUNTOUPOS

☐ LYDIA MUNIZ

☐ KRISTEN PANERALI

☐ NANCY BRANDEL

☐ EMILY KIM

☐ EVA SHEIBAR

COMMENTS: CBO letter

FAX NUMBER: 6-7431

PAGES: 3

PHONE NUMBER: _____

(includes cover page)



CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

June E. O'Neill
Director

June 16, 1995

Honorable Pete V. Domenici
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

At your request, the Congressional Budget Office (CBO) has reviewed "The President's Economic Plan: A Balanced Budget That Puts People First," as released on June 13, 1995. The President's June budgetary plan incorporates most of the elements of the budget submitted by the President in February, with additional reductions in spending and increases in taxes designed to make further reductions in the federal deficit. As explained by the staff of the Office of Management and Budget (OMB), these additional budgetary savings are "indicative proposals" that as yet do not represent specific policies. Therefore, a detailed program-by-program evaluation of the President's June budget is not possible at this time. CBO has prepared, however, a preliminary assessment of the budgetary effect of the President's new plan.

The attached table provides a rough estimate of how the President's June budget plan would affect the total deficit, if the plan's assumptions were translated into specific policies. As you requested, the table displays the President's program as changes from CBO's April budget baseline. CBO has adjusted the baseline deficit to reflect the projected effects of rebenchmarking the consumer price index (CPI). In 1998, the weights of the various categories of consumption in the CPI will change from the current 1982-1984 basis to a 1993-1995 basis. The House- and Senate-passed budget resolutions assume that this change will reduce the growth of the overall CPI by about two-tenths of a percentage point a year.

For defense and nondefense discretionary spending, CBO's estimate assumes the level of outlays specified in the President's plan. Because CBO's baseline for these programs is higher than the Administration's baseline, the amounts of discretionary savings shown in the table are larger than the Administration's figures. For mandatory spending programs and revenues, CBO's preliminary assessment assumes that the changes from the baseline would be the same as those estimated by the Administration. The revenue changes differ from those shown in the Administration's table, because a reduction in Federal Reserve earnings associated with an assumed drop in interest rates is excluded. CBO has estimated the resulting amount of debt service savings using the interest rates that underlie our April baseline.

-79-

Honorable Pete V. Domenici
Page 2

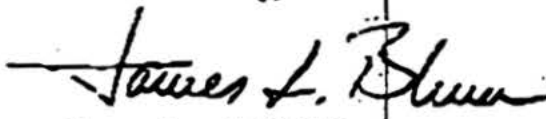
Using these assumptions, the budget deficit under the President's policies would represent about 2 percent of gross domestic product (GDP) in 2005. This is well below CBO's baseline deficit, which averages more than 3 percent of GDP over the 1995-2005 period. This reduction in the deficit would allow a modest drop in interest rates compared to those in CBO's baseline. The reduction in rates would be significantly less, however, than would arise if the budget were on a path to balance. Because of the uncertainties involved, the attached table does not incorporate any drop in interest rates attributable to deficit reduction. Even if some allowance were made for lower interest rates, however, the projected deficits under the President's June budget would likely remain near \$200 billion through 2005.

The differences between the CBO and OMB estimates of the deficit stem primarily from differences in budget baselines. As shown at the bottom of the table, CBO projects that the budget deficit under current policies will reach \$454 billion in 2005, assuming that discretionary spending keeps pace with inflation after the expiration of the discretionary spending limits in 1998. OMB projects a baseline deficit of only \$266 billion for 2005. The differences between the baselines reflect underlying differences in both economic and other estimating assumptions. Although the economic assumptions of CBO and the Administration appear quite similar, the differences are sufficient to produce noticeable differences in budget projections. On average, the Administration foresees slightly faster economic growth between now and 2005 than does CBO. Also, CBO and the Administration differ in their projections of the growth of the consumer price index, which affects indexed benefit programs and tax brackets, relative to that of the GDP deflator, which affects estimates of taxable income. CBO assumes that the CPI will grow significantly faster than the deflator, whereas the Administration assumes only slightly faster growth.

Estimating differences unrelated to economic differences also add to CBO's estimate of the baseline deficit compared with the Administration's estimates. Much of the difference in projected spending can be found in the Medicare and Medicaid programs. Although CBO believes that the growth of these programs has slowed from the extremely high rates of recent years, it is not quite as optimistic as the Administration about the slowdown.

If you wish further details on this analysis, we will be pleased to provide them.

Sincerely,


for June E. O'Neill
Director

cc: Honorable J. James Exon
Ranking Minority Member

Identical letter sent to Honorable John R. Kasich.

- 80 -

18-JUN-95

THE PRESIDENT'S BUDGETARY PROPOSALS
(by fiscal year) (in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1998-2002	1999-2005
CBO Baseline Deficit With Discretionary Inflation After 1995/a	210	230	232	260	290	310	340	384	422	472	NA	NA
Adjustment for Rebenchmarking of the Consumer Price Index	0	0	0	-1	-3	-8	-10	-12	-14	-18	NA	NA
Adjusted Baseline Deficit	210	230	232	260	290	310	340	372	408	454	NA	NA
President's Budgetary Proposals b:												
Discretionary spending	-5	-8	-16	-30	-45	-53	-62	-70	-84	-112	-210	-505
Mandatory spending												
Medicare	-4	-6	-10	-16	-23	-30	-36	-45	-55	-67	-126	-285
Medicaid	-4	-4	-6	-7	-9	-11	-13	-16	-17	-19	-54	-105
Poverty programs	-2	-4	-5	-6	-8	-7	-8	-8	-8	-9	-36	-63
Other	-2	-2	-1	3	1	1	-2	-2	-2	-1	2	3
Subtotal	-11	-16	-22	-26	-35	-40	-62	-70	-82	-95	-210	-465
Revenues/c, d	3	10	11	14	16	20	21	21	25	23	87	169
Corporate subsidies /e	-1	-2	-3	-4	-5	-5	-6	-8	-8	-6	-25	-43
Debt service /a	-1	-2	-3	-6	-10	-15	-22	-31	-42	-55	-57	-165
Total changes	-14	-18	-33	-62	-77	-99	-130	-165	-188	-246	-422	-1031
Deficit Under the President's Budgetary Proposals	196	212	199	213	220	211	210	207	209	209	NA	NA
Memorandum:												
CBO baseline deficit/a	210	230	232	260	290	310	340	372	408	454	NA	NA
OMB baseline deficit/a	201	219	209	221	228	235	240	248	255	266	NA	NA
OMB minus CBO	-9	-12	-23	-44	-67	-75	-100	-124	-153	-166	-331	-786

SOURCE: Congressional Budget Office; Office of Management and Budget

NOTES: Numbers do not add because of rounding. NA = Not applicable.

- Assumes compliance with discretionary spending limits through 1998. Discretionary spending is assumed to increase at the rate of inflation after that.
- Discretionary savings equal the difference between CBO's baseline discretionary spending and the levels of discretionary spending specified in "The President's Economic Plan," released June 13, 1995. Mandatory spending savings and revenue changes are at the levels specified in the President's plan. CBO has not reestimated the savings because there is not sufficient detail available at this time to allow a reestimate.
- Exclude estimated loss of revenues from the Federal Reserve associated with the Administration's anticipated reductions in interest rates.
- Revenue losses are shown with a positive sign because they increase the deficit.
- Debt service represents CBO's estimate of the reduction in interest payments that would result directly from the non-interest savings shown in this table. It does not include any possible effect from lower interest rates that might result from lower deficits.

-81-

Medicare Scoring Issues

1. What are the savings associated with managed care? Are there any new data that have dramatically altered the estimates?

In particular, if the additional costs charged for remaining in fee-for-service are not too great, what kind of participation rate would one expect in a managed care option? Also, would the healthier individuals be the ones more inclined to use the managed care option? After answering these questions, how would the savings from a new managed care option compare to the \$270 Billion of savings called for in the Budget Resolution?

2. If the savings in the Medicare program are insufficient to meet the savings requirement, then the Republicans are considering using some type of automatic sequester that would automatically cause provider and/or beneficiary cuts to go into effect once the savings shortfall became real. If it is currently estimated that these cuts would in fact be needed, these cuts should be treated as real cuts, not some hypothetical abstraction.

3. The issues of how we might change Medicare and the effects of such changes are critical. These issues should not be diminished by any scoring gimmicks, baseline obfuscation, or other such tricks. A cut is a cut. If savings from efficiencies such as managed care do not yield the required savings, then real cuts will occur to providers and/or beneficiaries.

Medicare Scoring Issues

1. What are the savings associated with managed care? Are there any new data that have dramatically altered the estimates?

In particular, if the additional costs charged for remaining in fee-for-service are not too great, what kind of participation rate would one expect in a managed care option? Also, would the healthier individuals be the ones more inclined to use the managed care option? After answering these questions, how would the savings from a new managed care option compare to the \$270 Billion of savings called for in the Budget Resolution?

2. If the savings in the Medicare program are insufficient to meet the savings requirement, then the Republicans are considering using some type of automatic sequester that would automatically cause provider and/or beneficiary cuts to go into effect once the savings shortfall became real. If it is currently estimated that these cuts would in fact be needed, these cuts should be treated as real cuts, not some hypothetical abstraction.

3. The issues of how we might change Medicare and the effects of such changes are critical. These issues should not be diminished by any scoring gimmicks, baseline obfuscation, or other such tricks. A cut is a cut. If savings from efficiencies such as managed care do not yield the required savings, then real cuts will occur to providers and/or beneficiaries.

CBO and OMB Medicare Baseline Differences

- There are really two separate issues here: (1) the historical difference between the CBO and OMB Medicare baselines, and (2) the differences between CBO and OMB scoring of individual Medicare savings proposals.
 - The difference in the baselines is independent of any proposals for Medicare savings, and
 - One cannot assume from this that CBO and OMB would score a set of individual Medicare savings proposals with any significant deviation.

1. Differences in the Baselines

- There have always been differences between the CBO and OMB Medicare baselines. These differences tend to be quite narrow in the current year, and grow during the out-years.
- As CBO said in its April 1995 analysis of the FY96 President's Budget, "given the size of [the Medicare and Medicaid] programs and the uncertainty about their future costs, the projections of CBO and the Administration are not very far apart."
 - For FY96, CBO's estimate of Medicare spending is only about \$4 billion higher than OMB, but this difference grows in succeeding years; in 2002, the difference is \$18 billion.
 - Over the period from 1996-2002, we estimate that the total difference between the CBO and OMB Medicare benefits baselines is about \$70 billion.
- OMB's Medicare baseline projections are calculated by the HCFA actuaries, who use the Administration's economic assumptions. For FY96, the actuaries reduced projected Medicare spending by \$40 billion over the 1996-2000 period that the President's Budget covers.
 - The actuaries expect spending in the Medicare program over this time to increase at a slower rate than in recent years.
 - This projected slowdown is the result of several factors. In particular, Hospital Insurance (HI) expenditures have grown more slowly than expected.

- Slower HI growth results primarily from lower hospital cost inflation and slower growth in complexity of Medicare inpatient cases.
- CBO's projections indicate that it agrees that Medicare spending will rise at a slower rate over the next five years, although CBO does not expect the reduction to be quite as significant.
- CBO's January 1995 *Economic and Budget Outlook* indicates that CBO is less optimistic about the slowdown in Medicare spending because of its view that the apparent slowing in the growth of payments for hospitalizations and physician visits is roughly offset by fast-growing costs, other services such as home health care and skilled nursing facilities.

2. Differences in "Scoring" Savings Proposals

- Determining how CBO would score the President's Medicare savings proposals is an almost impossible task. While it might seem that one could simply figure out the percentage by which the CBO baseline is higher than the OMB baseline, and multiply the total of the savings proposals by that amount, that calculation would not be even close to accurate.
- The reason is that the CBO baseline is composed of many separate baselines for different services and providers.
- Thus, scoring of specific savings proposals would really have to be done by CBO, proposal by proposal using detailed specifications, against the appropriate baseline.
- Recent history reflects that these baseline differences are not that important when it comes to scoring specific savings proposals. For example:
 - The Health Security Act contained Medicare savings proposals that OMB estimated would save \$118.3 billion over the 1995-2000 period. CBO scored these same proposals as saving \$117.6 on its baseline, which was higher than ours.
 - The President's FY96 budget contained four Medicare "extenders" from OBRA93 that OMB estimated would save \$28 billion over the 1995-2000 period. CBO has since scored these same proposals as saving only slightly more, \$30 billion.



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

THE DIRECTOR

June 14, 1995

Honorable Martin Olav Sabo
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

Martin
Dear Representative Sabo:

I wanted to follow up on our brief discussion at the Caucus this morning about the differences between the CBO and OMB baselines as they relate to Medicare.

Actually, there are two issues here: (1) the historical difference between the CBO and OMB Medicare baselines in the aggregate, and (2) the differences between CBO and OMB scoring of individual Medicare savings proposals. What I was trying to say today was that:

- the difference in the baselines is independent of any proposals for Medicare savings, and
- one cannot assume that CBO and OMB would score a set of individual Medicare savings proposals with any significant deviation.

The numbers in the materials we discussed with the Caucus today are the most accurate way to compare the President's Medicare savings proposals with the Republican proposals.

CBO and OMB Baseline Differences

As you know, there have always been differences between the CBO and OMB Medicare baselines. These differences tend to be quite narrow in the current year, and grow during the out-years. As CBO said in its April 1995 analysis of the FY96 President's Budget, "given the size of [the Medicare and Medicaid] programs and the uncertainty about their future costs, the projections of CBO and the Administration are not very far apart."

Over the period from 1996-2002, we estimate that the total difference between the CBO and OMB Medicare benefits baselines is about \$70 billion. For FY96, CBO's estimate of Medicare spending is only about \$4 billion higher than OMB, but this difference grows in succeeding years; in 2002, the difference is \$18 billion.

OMB's Medicare baseline projections are calculated by the HCFA actuaries, who use the Administration's economic assumptions. The projections for FY96 reduced projected Medicare

I understand your concern about the uncertainty and complexity that baseline differences introduce into the scoring of Medicare savings proposals. Unfortunately, we can do nothing about these baseline differences; the good news is that recent

history reflects that they are not that important when it comes to scoring specific savings proposals.

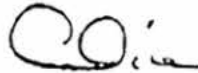
Let me mention two examples:

- First, you will recall that the Health Security Act contained Medicare savings proposals that we estimated would save \$118.3 billion over the 1995-2000 period. CBO scored these same proposals as saving \$117.6 on its baseline, which was higher than ours.

- Second, and most recently, our FY96 budget contained four Medicare "extenders" from OBRA93 that we estimated would save \$28 billion over the 1995-2000 period. CBO has since scored these same proposals as saving only slightly more, \$30 billion.

I hope this letter has answered some of your questions about our health reform proposal. Your support is critical as we work with the Congress to achieve what we both want: a balanced budget that is fair and reasonable. I look forward to working with you in the coming weeks.

Sincerely,



Alice M. Rivlin
Director

Hope this helps.

CBO VS. OMB

Q. THE CONGRESSIONAL BUDGET OFFICE SAYS THAT THE ADMINISTRATION'S NUMBERS ARE WAY-OFF WHEN THEY USE THE CBO BASELINE. ISN'T THIS JUST ANOTHER ROSY SCENARIO?

A. Absolutely not. We have a solid balanced budget plan based on numbers that are consistent, conservative and professional. Indeed, using the assumptions of the top private sector forecasters, our plan would get to balance.

There are some small differences between CBO and OMB in growth estimates and the health care baseline that get magnified over a 10 year period. We believe that our baseline is superior. Even CBO admits that our growth estimates are more consistent with the Blue Chip than theirs are. And our health care estimates are done by top, career health professionals at the Health Care Finance Administration, who have the best and most current information.

Indeed, CBO acknowledges that the Administration is closer to the Blue Chip than the CBO on the key economic assumptions that affect the deficit, including growth, interest rates and the GDP deflator.

Yet, while we believe our baseline is the best and they clearly believe that their baseline is the best, the key thing is that neither side should let honest accounting differences be an excuse to not work together to avoid a train wreck and to come up with the type of balanced budget plan that the American people could support.

FOLLOW UP: BUT DIDN'T YOU PROMISE IN 1993 TO USE CBO PROJECTIONS?

In his first budget, the President wanted to take away any disputes over numbers. Remember, Administration projections didn't have the best reputation after 12 years of magic asterisks and smoke and mirrors. Our accurate projections and success on the budget over the past two years have restored faith in an Administration's ability to put forward reasonable, fair budget projections. Indeed, we have been more on target than CBO in projecting the deficit so far. So particularly when the Administration numbers are exactly in line with the top private sector forecasters, it is appropriate and necessary for the President to rely on OMB for his budget projections.

BACKGROUND INFORMATION ON THE OMB/CBO BASELINE DIFFERENCES

- By our best estimates, using the economic assumptions of the Blue Chip forecasts and the career professionals at HCFA (Health Care Finance Administration), the President's economic plan gets to a small surplus in the year 2005.
- *Indeed, CBO acknowledges that the Administration is closer to the Blue Chip than the CBO on three key economic assumptions that affect the deficit, including growth, interest rates and the GDP deflator.*
- A Federal Reserve Board of Philadelphia study of 59 top economists projected average real GDP growth of 2.6% over ten years. The Administration has projected average growth of slightly under 2.5%. Therefore, the Administration's numbers are somewhat conservative compared to many top private sector economists.
- There are differences between the OMB and CBO baselines, but they are based on very small differences in two areas that appear more significant when they are extended over a 10 year period.
- Indeed, after the House takes into account its economic assumptions based on the CPI, growth and interest rates, 60% of the baseline differential is already evaporated. So the baseline difference between the Administration and the House is actually not so significant.
- The record has proved that OMB was more accurate in its deficit forecast than CBO when it presented the Administration's 1993 economic plan.

GROWTH RATES:

- **Very Small Differences:** We assume growth at slightly under 2.5% over the next several years. CBO is a little lower, around 2.3%. Yet, with the growth dividend that the House Budget Committee is taking with its plan -- and we are not -- the difference is virtually non-existent. CBO stated that "the economic assumptions of the Clinton Administration and the Congressional Budget Office are similar," and that our assumptions actually lead to more conservative deficit estimates in the first two years of our forecast.
- **Consistent with Outside Forecasters:** Our proposals are consistent with those of the top outside forecasters. Our growth forecasts are virtually identical to the Blue Chip between 1997-2001, and indeed, in both 1999 and 2000, the Blue Chip forecasts .4 and .3 higher growth than the Administration does. Meyer & Associates calls for higher growth than the Administration in 1999, 2000, 2001 and the same in 2002. DRI is higher than we are for two years, lower than we are for two years and the same two years. Ray Fair has higher growth forecasts every year between 1998 and 2001. So it is clear that we have conservative growth estimates that are consistent with the top private sector forecasters.

Indeed, the April, 1995 CBO document that compares CBO and OMB states that *"the Administration is generally closer than the CBO to the Blue Chip's long-range projections. The Blue Chip indicates the same average growth over the 1997-2000 period as the Administration and has similar projections for interest rates and the GDP deflator."*

- **This is Very Different from the Rosy Scenarios of the Past:** The Administration's growth forecast is only about .1% higher than CBO's. This is very different from the rosy scenarios that characterized Republican Administrations. For example, Stockman's FY1982 budget predicted growth a whopping 1.3% higher than the CBO. The next year, he came back again with a budget that predicted growth an average of 1.0% higher on average each year for his plan. All four years of the Bush Administration called for budgets with growth rates that were on average .75% higher every year than the CBO projection. So when you see the differences of .1% or .2% in the CBO and OMB growth rates, you can see that most years they are 1/10th to 1/7th the degree of differential that we saw during the Bush/Reagan years.

- **"Wedge Factor" Differences are Narrow:** The CBO indicates the difference between the estimates for the CPI and the GDP deflator has an important effect on the estimates of the deficit. This difference is called a "wedge factor." The Administration's estimate of wedge is similar to the Blue Chip's estimate [assuming that both CBO and the Blue Chip make the adjustment for re-benchmarking the CPI that CBO has already announced it will do in its summer update.]

HEALTH CARE:

- One of the two main reason for the difference in the CBO and OMB baselines is that the Administration assumes slightly less growth in Medicare and Medicaid.
- We should recall that these numbers come from the same HCFA actuaries that the Republicans frequently use as authorities when discussing the need to strengthen the Medicare Trust Fund. Certainly, they could not be questioning their credibility now.
- It is important to understand that the Medicare and Medicaid numbers are prepared by the Office of Actuary in the Health Care Financing Administration. The actuaries are career professionals who have been doing these same numbers through the last two Republican Administrations. Any notion that their estimates were affected by anything other than their professional judgment cannot be justified.
- The whole difference comes from the fact that on Medicaid the Administration projects 9.3% growth and the CBO projects 9.9% and on Medicare the Administration projects 9.1% growth and CBO projects 9.7%
- While we believe these are the differences of honorable career professionals on both sides, we do believe that our numbers are more accurate.
- On Medicaid, the Administration has higher beneficiary growth rates, yet they end

up with slightly higher overall growth assumptions because the Administration's estimates of per beneficiary costs are lower than CBO's 5.3% and 7.0%. Yet, the HCFA estimates are based on more up-to-date Social Security numbers regarding disabled beneficiaries in Medicaid and up-to-date Treasury information on Medicaid outlays -- which catches current changing trends.

- On Medicare, the Administration and CBO baselines for inpatient hospital services (which represent half of Medicare costs) are virtually identical. The only real difference is that while both believe the high growth rates in home health and skilled nursing facility costs will come down, the Administration projects them coming down somewhat faster.

ADMINISTRATION'S GROWTH NUMBERS VS. BLUE CHIP'S: The chart below shows that the Administration's projection over five years comes to the same average growth as the Blue Chip, while the CBO's is somewhat pessimistic relative to the consensus of private forecasters.

LONG-RANGE FORECASTS OF GDP GROWTH 1997 THROUGH 2001

	1997	1998	1999	2000	2001
Blue Chip (March)	2.0	2.3	2.9	2.8	2.4
Administration	2.5	2.5	2.5	2.5	2.4
CBO	2.4	2.3	2.3	2.3	2.3

Conference Agreement

Concurrent Resolution on the Budget -- Fiscal Year 1996

Early Highlights

June 23, 1995

Deficits and Spending

- Balance is achieved in seven years by first reducing the rate of growth in total spending.
- Total federal spending grows from \$1.5 trillion in 1995 to \$1.875 trillion in 2002. Annual growth rate of 3.0 percent.
- The federal deficit that would grow next year to nearly \$200 billion without changes in policy, will be reduced to \$170 billion and thereafter decline to a surplus of nearly \$7 billion in 2002.
- Total deficit reduction over the next seven years would reach nearly \$960 billion.

Tax Reductions

- Tax reductions cannot occur until Committees have first met their spending reduction instructions.
- Committees report to the Budget Committees their spending reduction legislation by mid-September and CBO certifies that balance has been achieved in 2002 and a fiscal dividend equal to \$170 billion over seven years, \$50 billion in 2002 has been created.
- Once certification occurs, tax writing committees

would be instructed to report to the Budget Committees within five working days legislation that would reduce tax revenues up to but not to exceed \$245 billion over seven years, and not to exceed the fiscal dividend estimated to be \$50 billion in 2002.

- In no case can the tax cuts in 2002 result in the budget being out of balance.

Select Spending Programs

Medicare

- Medicare will grow from \$178 billion this year to \$274 billion in 2002. Medicare spending will grow at an annual rate of 6.4 percent. Total Medicare spending over the next seven years will top \$1.6 trillion.
- Medicare solvency is insured through 2005.
- Relative to the unsustainable current spending path of Medicare, the conference agreement reduces spending \$270 billion over the next seven years.

Medicaid

- Conference agreement assumes a Medicaid block grant program that would reduce the rate of growth in the program from its current rate of 10.6 percent gradually over the next seven year period reaching about 4 percent in 2002.
- Medicaid spending grows from \$90 billion this year to over \$124 billion in 2002.
- Relative to a continuation of unsustainable growth in this program, savings of \$182 billion are achieved over the next seven years.

Defense

- The conference agreement assumes that defense spending (outlays) will decline from \$270 billion this year to \$265 billion in 1998, and then return to annual spending levels of near \$271 billion in 2001 and 2002.
- Defense spending relative to President Clinton's request this year will increase nearly \$33.1 billion over the next seven years.
- In the Senate, firewalls between defense spending and other discretionary spending would be established for three years.

Nondefense Spending

- Nondefense discretionary appropriations would decline from \$278 billion this year to \$244 billion in 2002.
- Relative to current law spending, these discretionary programs would be reduced \$190 billion over the next seven years through program terminations, consolidations, and returning their program management back to the states.
- The conference agreement assumes the termination of the Commerce Department, but leaves to the Committees of jurisdiction the determination of other Departmental closures.

Other Programs

- The conference agreement assumes welfare reform such that programs are reformed and savings of nearly \$100 billion over the next seven years.
- The conference agreement assumes reform of agriculture price support programs totalling \$13.3 billion over the next seven years. Agriculture price support programs will still expend \$45 billion over the next seven years.
- The conference agreement assumes reform of federal student loan programs \$10 billion over the next seven years. Reforms, it is assumed would be targeted on graduate and professional students.
- The conference agreement assumes nearly full funding of the Violent Crime Reduction Trust Fund.

CONFERENCE AGREEMENT BUDGET AGGREGATES

(Dollars in billions)

	1995	1996	1997	1998	1999	2000	2001	2002
Discretionary:								
Defense.....	270	264	265	265	268	271	271	271
Nondefense.....	278	270	259	252	247	249	245	244
Subtotal discretionary.....	548	534	524	517	516	520	516	515
Mandatory:								
Social Security.....	334	352	371	391	411	433	456	480
Medicare.....	178	191	202	214	226	239	255	274
Medicaid.....	89	96	102	106	110	115	119	124
Other mandatory.....	146	156	162	163	177	186	192	200
Net interest.....	235	259	265	269	276	281	282	283
Total outlays.....	1530	1586	1625	1660	1716	1774	1820	1875
Revenues.....	1355	1417	1475	1546	1618	1698	1789	1883
Resulting deficit/surplus.....	-175	-170	-152	-116	-100	-80	-33	7

NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis.

Prepared by SBC Majority Staff,

22-Jun-95

CONFERENCE AGREEMENT COMPARED TO BASELINE

(Dollars in billions)

	1996	1997	1998	1999	2000	5-yr total	2001	2002	Grand total
Current Law Deficit.....	198	215	211	225	238		226	229	
Discretionary:									
Defense.....	6	8	8	9	9	40	9	9	58
Nondefense.....	-10	-23	-27	-31	-31	-121	-34	-35	-190
Mandatory:									
Social Security.....	--	--	--	--	--	--	--	--	--
Medicare.....	-8	-18	-27	-37	-49	-139	-60	-71	-270
Medicaid.....	-4	-8	-16	-24	-33	-85	-43	-54	-182
Other mandatory.....	-10	-19	-25	-26	-29	-108	-30	-36	-174
Revenues.....	0	0	0	0	0	2	1	1	3
Total policy changes.....	-26	-59	-86	-108	-132	-411	-158	-187	-756
Debt service.....	-1	-5	-9	-16	-24	-55	-35	-48	-137
Total deficit reduction.....	-27	-63	-95	-124	-156	-465	-192	-235	-958
Resulting deficit/surplus....	170	152	116	100	80		33	-7	

NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis.
 Prepared by SBC Majority Staff, 22-Jun-95

CONFERENCE AGREEMENT COMPARED TO BASELINE

(Dollars in billions)

	1996	1997	1998	1999	2000	5-yr total	2001	2002	Grand total
Current Law Deficit.....	198	215	211	225	238		226	229	
Discretionary:									
Defense.....	6	8	8	9	9	40	9	9	58
Nondefense.....	-10	-23	-27	-31	-31	-121	-34	-35	-190
Mandatory:									
Social Security.....	-	-	-	-	-	-	-	-	-
Medicare.....	-8	-18	-27	-37	-49	-139	-60	-71	-270
Medicaid.....	-4	-8	-16	-24	-33	-85	-43	-54	-182
Other mandatory.....	-10	-19	-25	-26	-29	-108	-30	-36	-174
Revenues.....	0	0	0	0	0	2	1	1	3
Total policy changes.....	-26	-59	-86	-108	-132	-411	-158	-187	-756
Debt service.....	-1	-5	-9	-16	-24	-55	-35	-48	-137
Total deficit reduction.....	-27	-63	-95	-124	-156	-465	-192	-235	-958
Resulting deficit/surplus....	170	152	116	100	80		33	-7	

NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis.
Prepared by SBC Majority Staff, 22-Jun-95

MEDICARE SPENDING UNDER THE BALANCED BUDGET PROPOSALS

Medicare spending, savings and growth rates have become an important point of comparison between the President's and the Republicans' balanced budget plans. However, confusion over the right way to compare the Medicare proposals has surfaced. Specifically, the use of the Administration's Medicare baseline rather than the Congressional Budget Office's (CBO's) baseline has been used to create the misperception that the President's plan for Medicare would look more like the Republicans' plan if a common baseline were used. However, differences in estimating the baseline do not change the fact that the level of cuts called for by the Republicans are more than double those of the President's plan.

- **The baseline differences between the Congressional Budget Office (CBO) and the Administration are not large.**

Between 1996 and 2002, the dollar-amount difference between the two baselines is \$71 billion -- only 4 percent of the total CBO baseline. The baselines for inpatient hospital services, which represent nearly half of Medicare spending, are virtually identical.

- Eventually, comparisons of the plans will be made by pricing or "scoring" specific policies on the same baseline. Until such policies are specified, comparisons of the spending and savings under the plans can be made using simplifying assumptions.
- **One way to compare the President's plan to the Republican plan using the CBO baseline is to assume that the President's proportionate reduction in spending is the same under both baselines.**

The President's plan would reduce Medicare spending by 7% over the seven-year period, relative to the Republican plan, which reduces spending by 14%. Since this comparison describes the magnitude of the cut in relationship to the respective baseline, it takes the baseline issue out of the equation. This percent reduction could also be converted into a dollar amount: if the CBO baseline were reduced by 7%, then the President's plan would save \$130 billion.

- **Another approach was taken by the CBO who, in a letter to Senator Domenici, assessed the President's Medicare savings under the CBO baseline by assuming the President's savings are the same under both baselines.**

This means that the \$124 billion in savings projected off of the Administration baseline would be \$124 billion off of the CBO baseline as well. However, the CBO spending levels for the President's plan would be higher, since \$124 billion is subtracted from a higher baseline, yielding higher proposed spending.

Given the fact that CBO and Administration have frequently scored Medicare policies similarly in the past, this approach offers an approximation of the President's plan under

the CBO baseline. Recently, for example, the CBO scored the Medicare "extenders" in the President's 1996 budget at \$30 billion, whereas the Administration estimated their savings at \$28 billion. Similarly, the CBO and Administration estimates of the savings under the President's health reform bill were less than \$1 billion different over a five-year period.

However, the similarity in scoring depends on the specific set of policies. While hospital and premium policies have been scored similarly in the past, there have been differences in areas where baseline projections differ.

- **An incorrect way of comparing the President's plan to the Republican plan is to assume that the President's spending is the same under both baselines.**

It has been asserted that the President's plan has set down what he believes is an acceptable spending level, and that this represents a commitment to this spending level regardless of baselines. For instance, the total Medicare spending under the President's plan of \$1,675 billion over seven years -- estimated from the Administration's baseline -- would still be \$1,675 billion under the CBO baseline.

This is flawed logic, however. Projections of the spending that results from a set of policy changes are made by modifying baseline spending projections. Thus, if there are different baseline spending projections, the spending under the proposed law will be different. Assuming that the Medicare spending under the proposed law is fixed and does not change when different baseline assumptions are used is incorrect.

The President's commitment is not to a specific spending number, but a set of policies that result in that spending number. To reach this spending level on the CBO baseline would require a different set of policies -- that produce much deeper cuts than those of the President and potentially impose new out-of-pocket costs on beneficiaries.

Desperate Republicans Continue Medicare Misinformation Campaign

Republicans Cannot Defend Their Medicare Cuts Without Resorting to Distortions:

- (1) **Republicans claim that the same analysis that shows that their plan would increase Medicare beneficiaries out-of-pocket costs by at least \$600 more in 2002 (\$2,800 over 7 years) would translate into \$443 more under the President's balanced budget plan.**

This claim is simply untrue. The President's balanced budget proposal has NO new Medicare cost increases. The comparison is \$600 in the Republican plan v. zero under the President's balanced budget.

The Republican \$600 out-of-pocket increase that has been documented is based on an analysis by the Department of Health and Human Services that simply assumes 50% of the \$270 billion in Republican Medicare cuts come from beneficiaries. This is actually a conservative assumption as the split between beneficiary to health care provider cuts in the July Republican Ways and Means Committee Medicare working document is 65% to 35%.

- (2) **Republicans are now claiming that the President's \$124 billion in Medicare savings really amounts to \$192 billion off of the Congressional Budget Office baseline.**

Wrong again. The CBO has never stated or suggested that the President's \$124 billion in savings proposals equates to a \$192 billion cut. In fact, the only analysis of the President's balanced budget proposal by CBO (June 16, 1995) assumed that the Administration's Medicare savings amounted to \$128 billion over seven years.

It is true that the CBO and OMB *baselines* are different -- about \$70 billion over seven years. But because there are different assumptions behind the baselines and the policies that affect them, one cannot simply subtract the Administration's Medicare baseline from the CBO baseline and add that number to the President's Medicare savings number.

The \$124 billion in savings included in the President's balanced budget represents assumed policy changes that produce specific savings amounts. Historically, despite significant variations in the CBO and Office and Management and Budget (OMB) baselines, scoring of specific policies have been very close. For example, the Medicare savings in the Health Security Act was scored by OMB to save \$118.3 billion; CBO scored them to be \$117.6 billion. Most recently, OMB scored the Medicare "extenders" to produce \$28 billion in savings; CBO scored them at \$30 billion. Therefore, there is no reason to believe that CBO would score the President's Medicare savings at anywhere near the \$192 billion suggested by the Republicans.

Clinton Presidential Records Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: Part B Premium Issues

—
Part B Premium

Book

Facts On The Republican Medicare Premium Increase

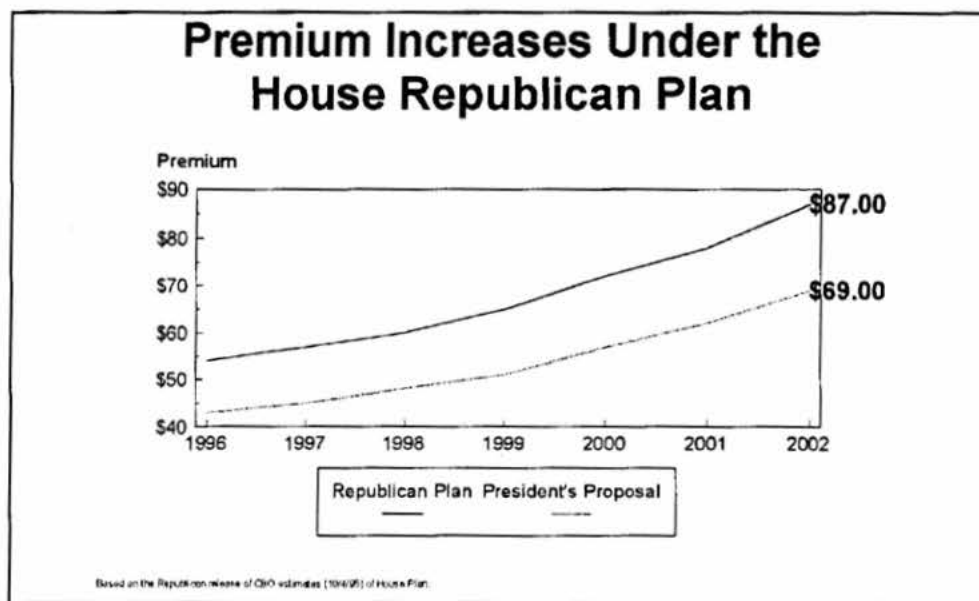
October 5, 1995

Republicans Can't Hide Their Premium Increases. No matter what the Republicans say, the bottom line always remains the same:

- The President's proposal maintains premiums at 25 percent of Medicare program costs.
- The Republicans' proposal increases premiums to 31.5 percent of Medicare program costs.

Medicare premiums are based on a percentage of the total Medicare Part B costs. No matter how much you shrink the Part B program, the above percentages always remain the same. If you apply a 25 percent premium (our plan) and a 31.5 percent premium (their plan) to the same Medicare program, the 25 percent premium will always be smaller. And the difference will always be around \$20.

The Republican Plan Raises Premiums by \$18. When the Republicans claim that their 31.5% premium amounts to only \$4 more than the President's proposal, they are being deceptive -- they are comparing apples to oranges. They are not applying the 25% premium and the 31.5% premium to the same size Medicare program. If they compared apples to apples and applied the President's 25% policy to the Medicare program they are calling for, the difference would be \$18.



The Reality is That Under The Republican Plan: Older Americans Pay More and Get Less -- In Order To Finance Tax Cuts For The Wealthy. Any way you slice it, the Republican \$270 billion Medicare cuts -- three times larger than any cuts in history -- will force you to pay more to get less -- just to fund a tax cut for the wealthy.

- Increased Out-of-Pocket Costs. The GOP plan will increase out-of-pocket costs for all seniors -- regardless of their income or health.
- Increased Premiums and Deductibles. Both the House and Senate plans increase premiums, and the Senate plan also cuts benefits and doubles deductibles from \$100 a year today to \$210 a year in 2002.
- Reduced Spending. Medicare benefits per beneficiary will be cut \$1,700 in 2002, forcing spending to grow about 30 percent slower than in the private sector.
- Taking Money From Seniors To Pay For Tax Cuts. Not one penny of the increased premiums will go to the Medicare trust fund. Instead, seniors will pay more out-of-their-pockets to fund a huge tax cut for the wealthy.
- Raising the Eligibility Age. The Senate plan would gradually delay the Medicare eligibility age from 65 to 67 beginning in 2003. Tens of millions of Americans would have to work longer and pay more taxes to get fewer years of Medicare.

Part B
Premium
Notebook

Facts On The Republican Medicare Premium Increase

October 5, 1995

Republicans Can't Hide Their Premium Increases. No matter what the Republicans say, the bottom line always remains the same:

- The President's proposal maintains premiums at 25 percent of Medicare program costs.
- The Republicans' proposal increases premiums to 31.5 percent of Medicare program costs.

Medicare premiums are based on a percentage of the total Medicare Part B costs. No matter how much you shrink the Part B program, the above percentages always remain the same. If you apply a 25 percent premium (our plan) and a 31.5 percent premium (their plan) to the same Medicare Part B program, the 25 percent premium will always be smaller.

The Republican Plan Raises Premiums by \$18. When the Republicans claim that their 31.5 percent premium amounts to only \$4 more than the President's proposal, they are being deceptive – they are comparing apples to oranges. They are not applying the 25 percent premium and the 31.5 percent premium to the same size Medicare program. If they compared apples to apples and applied the President's 25 percent policy to the Medicare program they are calling for, the difference would be \$18.

The Reality is That Under The Republican Plan: Older Americans Pay More and Get Less – In Order To Finance Tax Cuts For The Wealthy. Any way you slice it, the Republican \$270 billion Medicare cuts – three times larger than any cuts in history – will force you to pay more to get less – just to fund a tax cut for the wealthy.

- Increased Out-of-Pocket Costs. The GOP plan will increase out-of-pocket costs for all seniors – regardless of their income or health.
- Increased Premiums and Deductibles. Both the House and Senate plans increase premiums, and the Senate plan also cuts benefits and doubles deductibles from \$100 a year today to \$210 a year in 2002.
- Reduced Spending. Medicare benefits per beneficiary will be cut \$1,700 in 2002, forcing spending to grow about 30 percent slower than in the private sector.
- Taking Money From Seniors To Pay For Tax Cuts. Not one penny of the increased premiums will go to the Medicare trust fund. Instead, seniors will pay more out-of-their-pockets to fund a huge tax cut for the wealthy.
- Raising the Eligibility Age. The Senate plan would gradually delay the Medicare eligibility age from 65 to 67 beginning in 2003. Tens of millions of Americans would have to work longer and pay more taxes to get fewer years of Medicare.

Part B Premium / House Lie

Today the House Ways and Means Committee and the House Commerce Committee released an analysis of the Medicare Part B premium under the President's proposal and under the House Republicans' proposal. Once again, the House Republicans are irresponsibly playing fast and loose with the numbers and the truth.

The only fact that emerges from the document released today is that the Republicans are acknowledging that over half of their devastating \$270 billion in Medicare cuts come from the part of the program that has nothing to do with the Trust Fund -- Medicare Part B. As a result of these cuts, older Americans may find it increasingly difficult to find a physician who accepts traditional fee-for-service Medicare. As pointed out by the American Medical Association in today's *New York Times* article, "[these cuts] would be a major blow to the traditional fee-for-service Medicare program."

While it is true the Republicans' cuts threaten the Medicare program, the numbers the Republicans' released today are misleading at best and, at worst, represent an outright misinformation campaign. Their calculation of the President's Part B premium completely ignores the Part B savings he outlined in his balance budget proposal. These savings would guarantee that the Congressional Budget Office would score the President's Part B premium at less than what the Republicans claim.

Moreover, in a true apples to apples comparison, the Republican Part B premium set at 315 percent would be \$87; a premium set at 25 percent under their plan would actually be \$69 -- \$18 per month/\$216 a year less. Before the Republicans claim that they are preserving Medicare 'without needless sacrifice,' they should check their facts.

Part B Premium Abuse Lie

Today the House Ways and Means Committee and the House Commerce Committee released an analysis of the Medicare Part B premium under the President's proposal and under the House Republicans' proposal. Once again, the House Republicans are irresponsibly playing fast and loose with the numbers and the truth.

The only fact that emerges from the document released today is that the Republicans are acknowledging that over half of their devastating \$270 billion in Medicare cuts come from the part of the program that has nothing to do with the Trust Fund -- Medicare Part B. As a result of these cuts, older Americans may find it increasingly difficult to find a physician who accepts traditional fee-for-service Medicare. As pointed out by the American Medical Association in today's *New York Times* article, "[these cuts] would be a major blow to the traditional fee-for-service Medicare program."

While it is true the Republicans' cuts threaten the Medicare program, the numbers the Republicans' released today are misleading at best and, at worst, represent an outright misinformation campaign. Their calculation of the President's Part B premium completely ignores the Part B savings he outlined in his balance budget proposal. These savings would guarantee that the Congressional Budget Office would score the President's Part B premium at less than what the Republicans claim.

Moreover, in a true apples to apples comparison, the Republican Part B premium set at 315 percent would be \$87; a premium set at 25 percent under their plan would actually be \$69 -- \$18 per month/\$216 a year less. Before the Republicans claim that they are preserving Medicare 'without needless sacrifice,' they should check their facts.

Melrose S.

NEWS

FROM THE COMMITTEE ON WAYS AND MEANS FROM THE COMMITTEE ON COMMERCE

FOR IMMEDIATE RELEASE
October 4, 1995

CONTACT: Ari Fleisher or Scott Brenner
(202) 225-8933
Mike Collins
(202) 225-5735

CBO Analysis Shows \$4 (not \$7) Difference Between GOP Medicare Plan and Clinton Budget

Washington - Congressman Bill Archer, Chairman of the House Committee on Ways and Means, and Congressman Thomas Bliley, Jr., Chairman of the Commerce Committee, today released the Congressional Budget Office analysis of the Medicare Preservation Act's part B premiums.

The C.B.O. analysis demonstrates that senior citizens will pay \$4 a month more in premiums in 2002 under the GOP plan than they would under the Clinton plan.

"Earlier this year, Speaker of the House Newt Gingrich stated the difference between President Clinton's premium and the GOP premium would be about \$7 a month in 2002," Archer said. "CBO's analysis of our bill is now in and the difference is \$4 a month. As we have done throughout this year, Republicans have kept their word."

"In addition," Archer said, "by reforming the growth in the Part B program, we are able to keep costs down to seniors. Any reform plan that fails to address Part B's unsustainable growth rate will result in higher out of pocket costs to seniors because Medicare beneficiaries, of course, pay a percentage of Part B's total cost."

Chairman Bliley agreed.

"We were wrong and we admit it," said Rep. Bliley. "The difference between our plan and the President's isn't the \$7 we predicted, it's \$4. Today's good news from the Congressional Budget Office proves that Republicans have created a plan that will preserve Medicare for the next generation without needless sacrifice."

Part B Premiums
Medicare Preservation Act and Clinton FY'96 Budget

	1995	1996	1997	1998	1999	2000	2001	2002
MPA	\$46	\$54	\$57	\$60	\$64	\$72	\$78	\$87
Clinton Budget	\$46	\$44	\$48	\$53	\$59	\$67	\$74	\$83

Source: Congressional Budget Office and President Clinton's FY '96 Budget Submission, P. 108

Rock - Part B Premium

DRAFT

CT 10:20pm
9/18

- o Preliminary projections are that the Part B premium would be about \$89.80 in 2002 under the Republican plan. This is based on a 31.5 percent premium and estimates of Republican Part B savings.
 - + Compared to current law (where the 25 percent rule expires and the beneficiary share of the Part B premium declines to 20 percent in 2002), this would be an approximate \$29 increase in the monthly Part B premium, a \$348 increase in the annual Part B premium and a \$1,393 increase over 7 years.
- o If one assumed that the 25 percent Part B premium were attached to the Republican Part B savings, then the Part B premium would be an estimated \$71.30 in 2002.
 - + There would be an estimated \$18.50 difference in the monthly Part B premium and \$222 on an annual basis between a 31.5 percent and 25 percent Part B premium assuming the Republican Part B savings.
 - + Over 7 years, there would be about a \$1,300 cumulative difference in the Part B premiums.
 - + Compared to current law, this would be an estimated \$10.50 increase in the monthly Part B premium, a \$126 increase in the annual Part B premium and about a \$90 increase over 7 years (smaller increase over 7 years because the Part B 25 percent premium with Republican savers is lower than current law premium between 1996 and 1998)..

These estimates are based on CBO premium projections and HCFA estimates of Republican Part B savings.

Source: HCFA estimates.

DRAFT

CJ 10:20pm
9/18

- o Preliminary projections are that the Part B premium would be about \$89.80 in 2002 under the Republican plan. This is based on a 31.5 percent premium and estimates of Republican Part B savings.
 - + Compared to current law (where the 25 percent rule expires and the beneficiary share of the Part B premium declines to 20 percent in 2002), this would be an approximate \$29 increase in the monthly Part B premium, a \$348 increase in the annual Part B premium and a \$1,393 increase over 7 years.
- o If one assumed that the 25 percent Part B premium were attached to the Republican Part B savings, then the Part B premium would be an estimated \$71.30 in 2002.
 - + There would be an estimated \$18.50 difference in the monthly Part B premium and \$222 on an annual basis between a 31.5 percent and 25 percent Part B premium assuming the Republican Part B savings.
 - + Over 7 years, there would be about a \$1,300 cumulative difference in the Part B premiums.
 - + Compared to current law, this would be an estimated \$10.50 increase in the monthly Part B premium, a \$126 increase in the annual Part B premium and about a \$90 increase over 7 years (smaller increase over 7 years because the Part B 25 percent premium with Republican savers is lower than current law premium between 1996 and 1998)..

These estimates are based on CBO premium projections and HCFA estimates of Republican Part B savings.

Source: HCFA estimates.

46.90 50.80 52.80 54.20 55.90 57.77 *war - J. Man*

46.10 Medicare Part B Premiums

	1996	1997	1998	1999	2000	2001	2002
Current law	\$43.70 42.50	\$48.20 4*	\$53.20	\$55.00	\$56.90	\$58.80	\$60.80
Maintain premium at 31% of expenditures at current Part B expenditure level	\$55.00	\$60.70	\$67.00	\$74.40	\$84.60	\$93.60	\$104.30
Maintain 25% after 1998 at current Part B expenditure level	\$43.70	\$48.20	\$53.20	\$59.10	\$67.20	\$74.30	\$82.80
Republican plan to maintain 31.5% at <u>reduced</u> Part B expenditure level	N/A	N/A	N/A	N/A	N/A	N/A	\$90.00
Republican plan at their <u>reduced</u> Part B expenditure level assuming 25% expenditure level	\$43.70	N/A	N/A	N/A	N/A	N/A	\$71.40
President's plan to maintain 25% at reduced Part B expenditure level	\$43.70	N/A	N/A	N/A	N/A	N/A	\$78.00

Difference between the current law and Republican premium in 2002 is \$29.20 per month

Difference between Republican premium and a premium set at 25% off of their Part B expenditure baseline is \$18.60 per month

Facts On The Republican Medicare Premium Increase

October 5, 1995

John
Carmichael

Republicans Can't Hide Their Premium Increases. No matter what the Republicans say, the bottom line always remains the same:

- ~~The President's proposal~~ *The President's proposal* maintain Medicare program at ~~We are for maintaining premiums~~ at 25 percent of Medicare program costs.
- They are for increasing premiums to 31.5 percent of Medicare program costs.

Medicare premiums are based on a percentage of the total Medicare Part B costs. No matter how much you shrink the Part B program, the above percentages always remain the same. If you apply a 25 percent premium (our plan) and a 31.5 percent premium (their plan) to the same Medicare Part B program, the 25 percent premium will always be smaller. *and about at least \$15 a year*

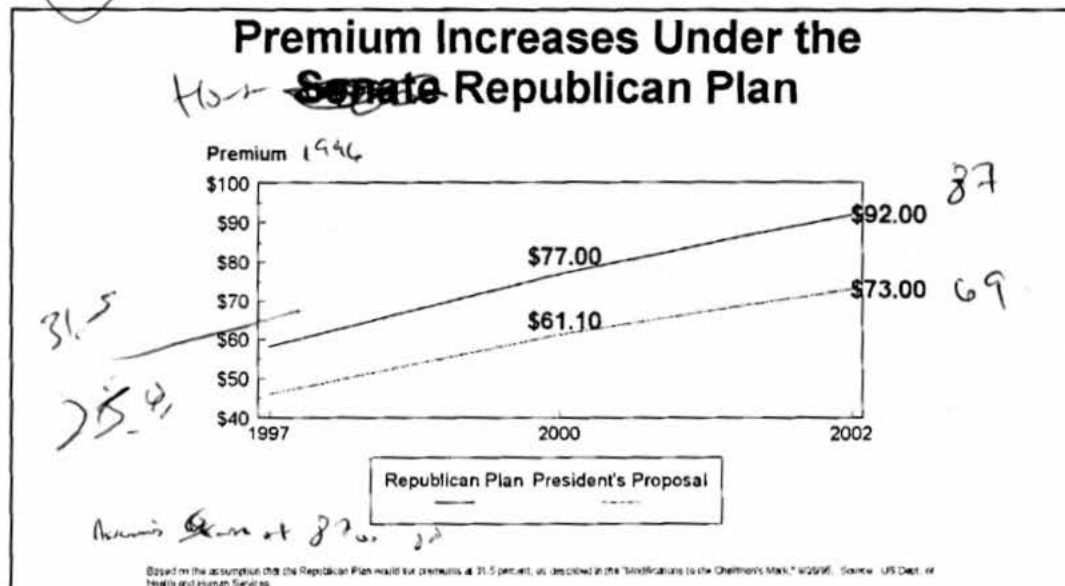
smaller in 2002

Significantly

The Republicans Want to Raise Premiums to 31.5 Percent. When you compare apples to apples, the difference between the ~~President's proposal~~ of keeping Medicare premiums set at 25 percent of costs versus the Republican proposal of permanently raising the premiums to 31.5 percent of costs, always comes out to around a \$20 dollar difference per month. *or \$240 a year more.*

- Based on current Medicare policies, the difference between the 25 percent premium the President calls for and the 31.5 percent the Republicans call for is about \$21.
- When the Republicans claim that their 31.5 percent premium amounts to only \$4 more than the President's proposal, they are being deceptive -- they are comparing apples to orange. They are not applying the 25 percent premium and the 31.5 percent premium to the same size Medicare program. If they applied the President's 25 percent policy to the Medicare program they are calling for, the difference would be \$18.

Any Way You Slice It, 25% Premiums Are Always Substantially Lower Than 31.5% Premiums. Whether the size of the Medicare program stays near the President's proposal or is cut dramatically as the Republicans propose, the difference between a 25 percent policy and a 31.5 percent policy is always around \$20.



Medicare Part B Premiums

	1996	1997	1998	1999	2000	2001	2002
Current law	\$43.70	\$48.20	\$53.20	\$55.00	\$56.90	\$58.80	\$60.80
Maintain premium at 31% of expenditures at current Part B expenditure level	\$55.00	\$60.70	\$67.00	\$74.40	\$84.60	\$93.60	\$104.30
Maintain 25% after 1998 at current Part B expenditure level	\$43.70	\$48.20	\$53.20	\$59.10	\$67.20	\$74.30	\$82.80
Republican plan to maintain 31.5% at <u>reduced</u> Part B expenditure level	N/A	N/A	N/A	N/A	N/A	N/A	\$90.00
Republican plan at <u>reduced</u> Part B expenditure level assuming 25% expenditure level	\$43.70	N/A	N/A	N/A	N/A	N/A	\$71.40

Difference between the current law and Republican premium in 2002 is \$29.20 per month

Difference between Republican premium and a premium set at 25% off of their Part B expenditure baseline is \$18.60 per month

Medicare Part B Premiums

25 →

	1995	1996	1997	1998	1999	2000	2001	2002
Current law:	\$46.10	\$43.70	\$48.20	\$53.20	\$55.00	\$56.90	\$58.80	\$60.80
Maintain premium at 31% of expenditures at current Part B expenditure level:	\$46.10	\$55.00	\$60.70	\$67.00	\$74.40	\$84.60	\$93.60	\$104.30
Maintain 25% after 1998 at current Part B expenditure level	\$46.10	\$43.70	\$48.20	\$53.20	\$59.10	\$67.20	\$74.30	\$82.80
Republican plan to maintain 31 % at reduced Part B expenditure level	\$46.10	\$55.00						\$93
President's plan to maintain 25% at reduced Part B expenditure level	\$46.10							\$79

78

1996 2002
43.70 71.40

1060

Difference between current law and Republican premium in 2002 is \$32.00 per month
Difference between Republican premium and President's premium in 2002 is \$14.00 per month

Prepared by the Democratic staff of the Committee on Ways and Means September 14, 1995

Jupiter Beach
Florida

Veto

or Submissions, & provides

In 1994

Consider the sum for 25th of Oct
or for 2 months

Regulations were revised to

31.5% using 1994

Number, 25% 71.40,

by raising. 30 to 31.2

90+00.

No details

✓ yearly number

\$18.60
x 12
3720
18600
243.20

Mon for 4-5

- magnitude
- Any way get cat it,
- VETO

Estimation of Effect of President's Balanced Budget Part B Savings on Part B Premium (SY 2002) (in billions)

\$8.570	Part B savings proposals (including MSP extender, excluding premium)
\$7.330	Part B premium "gross" revenues (extension of 25% rule)
-2.095	Offset for Part B savings proposals
\$5.235	Part B premium "net" revenues
\$13.805	Total Part B Reduction

\$2.095 bil / .039 beneficiaries/12 months = \$4.47 rounded to \$4.50 per month reduction in monthly beneficiary premium.

\$82.80
-4.50
\$78.30

Caveats:

(1) CBO premium figures are used and mixed with Administration savings figures since there is no CBO pricing of the Administration package. Thus, offset/premium reduction figured on Administration baseline is applied to CBO premium figure.

Estimation of Effect of President's Balanced Budget Part B Savings on Part B Premium (SY 2002) (in billions)

\$8.570	Part B savings proposals (including MSP extender, excluding premium)
\$7.330	Part B premium "gross" revenues (extension of 25% rule)
-2.095	Offset for Part B savings proposals
\$5.235	Part B premium "net" revenues
\$13.805	Total Part B Reduction

\$2.095 bil / .039 beneficiaries/12 months = \$4.47 rounded to \$4.50 per month reduction in monthly beneficiary premium.

\$82.80
-4.50
\$78.30

Caveats:

(1) CBO premium figures are used and mixed with Administration savings figures since there is no CBO pricing of the Administration package. Thus, offset/premium reduction figured on Administration baseline is applied to CBO premium figure.