THE BREAUX-CHAFEE PLAN

The Breaux-Chafee plan continues to seek a middle route between the Republican plan and ours in many respects. However, it also embraces some problematic policies. While the details are still evolving, which will delay CBO scoring, in general:

Policies that move towards the Administration --

- The Medicaid policy is far superior to the Republican plan, and offers an opening for bipartisan compromise.

- The welfare policy moves closer to us in many ways, but with deeper cuts in immigrants benefits.

Policies that remain problematic --

- Breaux-Chafee contains a Medicare premium increase for seniors over 200% of poverty.

- It caps the direct student loan program at 40% of total student loan volume, a policy we successfully opposed in the final 1996 appropriations bill.

- It reduces the CPI by .5% over and above the technical reductions we expect BLS to make in 1997 and 1998, and by .3% thereafter, which saves $110 billion over seven years.

In large part because of the larger Medicare, welfare, and CPI savings, Breaux-Chafee apparently does not need to trigger off its tax cut. Without these savings, and without a trigger, the plan would not balance in 2002.

Details on the policies in Breaux-Chafee

Discretionary. The Breaux-Chafee discretionary cuts are smaller than ours over 7 years, but are heavily backloaded and apparently become equally deep in the last year.

Medicare. The Medicare savings proposals in Breaux-Chafee, which they describe as saving $154 billion over 7 years, are quite similar to those in the Administration's $124 billion package. Note that Breaux-Chafee is using a 1997-2003 timeframe, instead of the 1996-2002 assumed in the Administration's estimate.

The major differences between Breaux-Chafee and the Administration's plan are:

Part B Premium. Consistent with Administration policy, Breaux-Chafee maintains the 25% premium for "lower-income seniors." Starting at 200% of poverty, Medicare premium subsidies start to phase out (i.e., couples above $20,000 will pay a premium equal to 31.5% of Part B program costs, phasing up to 100% for couples at $150,000).

MSAs. Breaux-Chafee would allow MSAs on demonstration basis. No further details are provided.

Eligibility Age. It would match Medicare eligibility age to Social Security, phasing up to 66 between 2000 and 2005 and to 67 by 2022.

Medicaid. The Breaux-Chafee Medicaid proposal preserves the Federal guarantee of coverage and incorporates many of the state flexibility principles of the Administration's proposal. The proposal also maintains current law mandatory and optional population groups and services. It also retains current law match rates; keeps a federal definition of disability and continues the eligibility expansions enacted in 1990; maintains current nursing home standards with federal enforcement; and maintains the federal right of action.

Issues with Breaux-Chafee Medicaid policy:

Link between AFDC and Medicaid eligibility. The welfare plan does not guarantee categorical eligibility for all current AFDC recipients. Instead, states would have the option of covering current law AFDC beneficiaries or those eligible under the new welfare program. This option could lead to the loss of Medicaid coverage for some families.

Federal payment to States. Although Breaux-Chafee appears to have a savings mechanism similar to our per-capita cap, it is unclear how the proposal would take into account caseload increases. In addition, it appears that States will be able retain a base level of federal payments even if they drop coverage for optional services or population groups. This could cause federal funding to be disconnected to the size of the benefit package or number of beneficiaries served.

Welfare Reform. Breaux-Chafee is similar to Administration policy on child care, SSI Kids, child nutrition, child protection, and most food stamps and AFDC issues including flexible work requirements, equal protection of benefit recipients, etc.. However, Breaux-Chafee has more savings than the Administration plan, financed with deeper cuts in immigrants benefits and food stamps.

Benefits to Legal Immigrants -- Rather than expanding "deeming" provisions as proposed by the Administration, Breaux-Chafee would ban almost all legal immigrants from receiving SSI with exemptions only for current recipients who are very elderly, disabled, and a few others; virtually all future immigrants would be banned from receiving SSI, including the disabled. In addition, the plan would impose a 5-year ban for most legal immigrants from most federal benefits including Medicaid and AFDC.

Food Stamps -- While Breaux-Chafee does not allow states to turn food stamps into a block grant or cap the program, it does cut deeper than the Administration's plan, primarily by establishing a 4-6 month time limit for benefits for unemployed childless adults. This restriction would affect about a half million persons.

CBO 7-YEAR SCORING OF ALTERNATIVE PLANS
(in billions of dollars)

05/01/96
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	President's Budget	President's Budget	Republican Offer (1/6)	Breaux-Chafee Plan
	Using April 1996 Baseline	Using December 1995 Baseline		
Savings:				
Discretionary	-233	-297	-348	-268
Mandatory:				
Medicare	-116	-124	-168	-154
Medicaid	-54	-59	-85	-62
Welfare reform	-37	-40	-60	-45 to -53
EITC 1/	-5	-5	-15	In welfare
Other mandatory	-56	-49	-66	-52
Total, mandatory	-268	-277	-394	-313 to -321
Tax cuts	97	100	207	130
Corporate loopholes and other	-53	-62	-26	-25
Extension of expired excise taxes	-36	Extension included in December baseline		
CPI adjustment	---	---	---	-110
Total, policy proposals	-492	-537	-562	-621 to -630
Debt service	-38	-56	-59	NA
Total savings	-530	-593	-621	NA

1/ Includes revenues.

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THE IMPACT OF RECENT CBO BASELINE CHANGES

1. Under the April CBO baseline, the budget deficit outlook has improved significantly. CBO rescoring of the baseline from December 1995 to April 1996 reduced the cumulative deficit by $114 billion over seven years.

CBO Baseline Deficit, Billions	1996	1997	1998	1999	2000	2001	2002	Total
December 1995	172	182	183	195	204	211	228	N.A.
April 1996	144	165	175	182	191	194	210	N.A.
Change	28	17	8	13	13	17	18	114

The April 1996 CBO baseline deficit assumes the expiration of the air transportation excise taxes and other provisions. If immediate reenactment were assumed, the baseline deficit would be about $36 billion lower over the seven-year period.

2. However, the large reductions in the baseline deficits provided very little additional deficit reduction in 2002 under actual balanced-budget plans. In fact, when CBO rescored our FY 1997 budget under the April baseline, the 2002 surplus actually declined. Therefore, there is no room for significant additional tax cuts or spending increases in 2002; and any additional spending or tax cuts in the earlier years would have to trigger off before 2002.

   - The December 1995 baseline revision reduced the projected deficits under the vetoed Reconciliation bill by much less than the change in the baseline, and only in the early years -- not in 2002, when the balanced-budget constraint binds.

   - CBO has not rescored the Republicans' vetoed Reconciliation bill under their new April 1996 baseline. However, the April 1996 baseline revision reduced the projected deficits under the President's FY 1997 Budget very little, and worsened the projected surplus in 2002. This result strongly suggests that rescoring of the Republicans' latest offer, or any other balanced-budget plan, would not provide any significant room in 2002.

THE PRESIDENT'S FY 1997 BUDGET								
CBO-Scored Deficit, in Billions	1996	1997	1998	1999	2000	2001	2002	Total
December 1995 Baseline	158	164	150	126	109	62	-8	N.A.
April 1996 Update	146	155	152	123	105	54	-3	N.A.
Difference	12	9	-2	3	4	8	-5	29

- These baseline improvements have little effect on 2002 deficits for two basic reasons:

  First, most improvement in the CBO baseline comes in the early years rather than the outyears -- in contrast to the OMB baseline improvement, which grows over time.

  Second, much of the improvement in the CBO baseline comes in areas -- discretionary, Medicare, Medicaid -- where spending is essentially capped by the balanced-budget policies. Reducing baseline spending in these areas does not reduce the projected deficit; it reduces only the projected budget savings.

  For example, the Reconciliation bill capped Medicaid spending in 2002 at $128 billion. The baseline was $178 billion; therefore scored savings were $50 billion. Subsequent events pushed the baseline down to $173 billion. But that did not reduce the expected deficit at all, because expected outlays were still $128 billion. Instead, it reduced the scored savings from $50 billion to $45 billion.

SENATE BIPARTISAN BUDGET GROUP
7-YEAR BALANCED BUDGET PLAN
(3-26-96)

*** NOT FOR DISTRIBUTION ***

INTRODUCTION

The Senate Bipartisan Budget Group is comprised of twenty-two Senators, equally represented by Republicans and Democrats, who are committed to balancing the federal budget. This comprehensive seven-year plan borrows from the most recent proposals offered by the Republican Congressional leadership, the Administration, and the National Governors' Association.

MEDICARE (est. savings $154b.)

The plan proposes a variety of reforms to the Medicare program designed to promote efficiency in the delivery of services and strengthen the financial status of the Trust Fund. The proposal retains the traditional, fee for service Medicare program, but also encourages the formation of private managed care options for seniors and the disabled, allowing point of service plans, provider sponsored organizations, and medical savings accounts (on a demonstration basis).

The plan's provider payment savings and the expanded availability of managed care delivery of services will lower the cost of the Medicare program over the next seven years thereby extending the solvency of the Medicare Trust Fund.

Program Reforms

Increase choice of private health plans. Under the proposal, preferred provider organizations (PPOs), provider sponsored organizations (PSOs), Medical Savings Accounts (as a demonstration project), and other types of plans that meet Medicare's standards are made available to Medicare beneficiaries.

Annual enrollment. The plan allows beneficiaries to switch health plans each year during an annual "open season" or within 90 days of initial enrollment.

Standards. The Secretary of HHS, in consultation with outside groups, will develop standards which will apply to all plans. These standards will include for benefits, coverage, payment, quality, consumer protection, assumption of full financial risk, etc., which will apply to all plans; PSOs can apply for a limited waiver of the requirement that plans be licensed under state law.

Additional benefits. Under the proposal, health plans would be permitted to offer their participants additional benefits or rebates in the form of a reduced Medicare Part B premium. Plans would be prohibited from charging additional premiums for services covered by Medicare Parts A&B.

Payments to private health plans. Payments to managed care plans will be de-linked from traditional fee-for-service payments and will be computed using both locally-based and nationally-based rates. Future payments will grow by a predetermined percentage and a floor will be established in order to attract plans to the lowest payment areas.

Commission on the Effect of the Baby Boom Generation. The plan proposes the creation of a commission to make recommendations regarding the long-term solvency of the Medicare program.

Conform Medicare with Social Security. The eligibility age for Medicare is increased to 67 at the same rate as the current Social Security eligibility age is scheduled to increase.

Part A Program Savings (Hospitals)

Hospital Market Basket Update Reduction. For hospitals, the proposal sets the annual update for inpatient hospital services at the market basket minus one and one-half percentage points for fiscal years 1997 through 2003.

Capital Payment Reduction. For hospitals, the proposal reduces the inpatient capital payment rate by fifteen percent for fiscal years 1997 through 2003.

Reduce The Indirect Medical Education Reimbursement Rate. The proposal phases-in a reduction to the additional payment adjustment to teaching hospitals for indirect medical education from 7.7 percent to 6.0 percent.

Reduce DSH Payment. The plan reduces the extra payments made to certain hospitals that serve a disproportionate share of low income patients by 10 percent less than current-law estimates.

Skilled Nursing Facility Payment Reform. The proposal adopts a Prospective Payment System (PPS) for Skilled Nursing Facilities by November 1997. In moving to the new methodology, a temporary freeze on payment increases is imposed and then an interim system is implemented until the full PPS system is implemented.

Part B Program Savings (Physicians)

Physician Payment Reform. The proposal adjusts the Medicare fee system used to pay physicians. A single conversion factor would be phased-in for all physicians instead of the current three conversion factors. Surgeons would be phased-in over a two year period. The conversion factor for 1996 would be $35.42 and the annual growth rate would be subject to upper and lower growth bounds of plus 3 percent and minus 7 percent.

Reduce Hospital Outpatient Formula. The proposal adjusts the current Medicare formula for hospital outpatient departments to eliminate overpayments due to a payment formula flaw.

Reduce Oxygen Payment. The proposal would decrease the monthly payment for home oxygen services and eliminate the annual cost update for this service through 2003.

Freeze Durable Medical Equipment Reimbursement. The proposal eliminates the CPI-U updates for payments of all categories of Durable Medical Equipment for fiscal years 1997 through 2003.

Reduce Laboratory Reimbursement. The proposal lowers expenditures on laboratory tests by reducing the national cap for each service to 72 percent of the national median fee during the base year for that service.

Ambulatory Surgical Center Rate Change. The proposal lowers the annual payment rate adjustment by minus three percent for fiscal years 1997 and 1998 and then reduces the rate by minus two percent for remaining fiscal years through 2003.

Part A & B Program Savings

Medicare Secondary Payer Extensions. The proposal would make permanent the law that places Medicare as the secondary payer for disabled beneficiaries who have employer-provided health insurance. It also extends to twenty-four months the period of time employer health insurance is the primary payer for end stage renal disease (ESRD) beneficiaries.

Home Health Payment Reform. The proposal reforms the payment methodology used to pay home health services by the beginning of fiscal year 1999. While a prospective payment system is developed, current payments are frozen and an interim payment system implemented.

Fraud & Abuse Changes. The proposal includes a number of provisions designed to improve the ability to combat Medicare fraud and abuse by providers and beneficiaries

Medicare Part B Premium Reform. The plan retains the pre-1996 financing structure for the Part B program by requiring most participants to pay for 31.5% of the program's costs. Premiums for lower income seniors are lowered to 25% of the program's costs. In addition, the proposal eliminates the taxpayer subsidy of Medicare Part B premiums for high income individuals.

MEDICAID (est. savings $62b.)

The proposal incorporates many of the principles of the NGA proposal regarding enhanced state flexibility, while also maintaining important safeguards for the federal treasury and retaining the guarantee of coverage for beneficiaries.

Payments to States. States are guaranteed a base amount of funds that may be accessed regardless of the number of individuals enrolled in the State plan. Each state would have the ability to designate a base year amount from among their actual Medicaid spending for FY 1993, 1994, or 1995. Approximately one-third of disproportionate share hospital payments would be included in the base year amount, one-third would be used for deficit reduction, and one-third would be used for a federal disproportionate share hospital payment program.

In addition, states will receive growth rates which reflect both an inflation factor and estimated caseload increases. If the estimate for caseload in any given year was too low, states would receive additional payments per beneficiary from an "umbrella fund" to make up the difference. Conversely, if the caseload was overestimated, the estimate for the following year would be adjusted downward. The plan retains the current law match rates and restrictions on provider taxes and voluntary contributions.

Eligibility. The proposal maintains current law mandatory and optional populations with the following modifications: states would cover those individuals eligible for SSI under a more strict definition of disabled (tightened by the welfare reform changes included in this proposal) as well as SSI-related groups; states would have the option of covering current-law AFDC beneficiaries or those eligible under a revised AFDC program (includes one-year transitional coverage); and, states are permitted to use savings in their base year amount to expand health care coverage to individuals with incomes below 100% of the federal poverty level without obtaining a federal waiver.

Benefits. The plan maintains current law mandatory and optional benefits except that Federally Qualified Health Center (FQHC) services would be optional rather than mandatory. The proposal also gives the Secretary of HHS the authority to redefine early periodic screening and diagnosis treatment (EPSDT) services.

Provider payments. The proposal repeals the so-called Boren amendment as well as the reasonable-cost reimbursement requirements for FQHCs and rural health clinics, thus allowing states full flexibility in setting provider rates.

Quality. States would be allowed to set provider standards. States would no longer be required to obtain a waiver to enroll patients in managed care plans, provided the plans met the state's standards developed for private plans.

Nursing Home Standards. The proposal maintains current nursing home standards with existing enforcement. Streamline certain requirements.

Enforcement. Individuals and providers are required to go through a state-run administrative hearing process prior to filing suit in federal court.

Set Asides. The plan establishes a federal fund for certain states that have high percentages of undocumented aliens, as well as a fund for FQHCs and rural health clinics.

Program Structure. The reforms are made to the existing Medicaid statute.

WELFARE (est. savings $45b. - 53b.)

Block Grant. The proposal transforms existing welfare programs into a block grant to states to increase program flexibility and encourage state and local innovation in assisting low-income families in becoming self-sufficient. This structure provides incentives to states to continue their partnership with the federal government by encouraging states to maintain 80 percent of their current spending on major welfare programs. While the plan provides maximum flexibility, it requires states to operate their programs in a way that treats recipients in a fair and equitable manner.

Contingency Fund. To protect states facing difficult economic times, the plan calls for the creation of a $2 billion federal contingency fund.

Child Care. The plan provides $14.8 billion in mandatory federal funds for child care and ensures that those child care facilities meet minimum health and safety standards so that children are well-cared for while their parents go to work.

Maintenance of Effort. To encourage states not to substitute these new federal funds for current state spending, a 100 percent maintenance of effort and a state match are required in order to access additional federal money for child care and contingency funds.

Work Requirement and Time Limit. The plan requires states to meet tough new work requirements – 50 percent by 2002 – and limits a beneficiary's cash assistance to five years, so that AFDC becomes a temporary helping hand to those in need, rather than a permanent way of life.

Retention of Certain Safety Nets. The proposal retains important protections for welfare's most vulnerable beneficiaries, the children. It allows states to waive penalties for single parents with children under school age who cannot work because they do not have child care, gives states the option to require those parents to work only 20 hours a week, and requires states with a time limit shorter than five years to provide assistance to children in the form of vouchers.

Out-of-Wedlock Births. The plan encourages a reduction in out-of-wedlock births by allowing states to deny benefits to additional children born to a family already on welfare and rewarding states that reduce the number of out-of-wedlock births.

Curbing SSI Abuse. The proposal repeals the Individualized Functional Assessment (IFA) used to determine a child's eligibility for Supplemental Security Income (SSI) and replaces it with a tightened definition of childhood disability. It maintains cash assistance for those children who remain eligible for SSI under this new criteria.

Foster Care and Adoption Assistance. The federal entitlement for foster care and adoption assistance (and their respective pre-placement and administrative costs) is maintained under the proposal. States are required to continue to meet federal standards in their child welfare and foster care programs.

Food Stamp and Child Nutrition Programs. The proposal streamlines the food stamp and child nutrition programs, while retaining this critical safety net as a federal entitlement. The work requirement for single, childless recipients in the food stamp program is toughened.

Promoting Self-Sufficiency for Immigrants. The plan imposes a five-year ban on most federal "needs based" benefits for legal immigrants with exceptions for certain categories of individuals, such as veterans, refugees and asylees. Certain programs such as child nutrition, foster care and emergency health care under Medicaid are excluded from this ban. The plan imposes an immediate ban on SSI for all legal immigrants except current recipients who are over 75 years of age or disabled, veterans and their dependents, and for a five-year period refugees, deportees and asylees. Finally, the deeming requirements for legal immigrants are expanded to cover the last 40 quarters or five years (whichever is longer) but do not continue past naturalization.

Retargets Earned Income Credit. The Earned Income Credit is retargeted to truly needy by reducing eligibility for those with other economic resources. The plan also strengthens the administration of the Earned Income Credit by implementing procedures to curb fraud.

TAXES ($130b.tax cut; $25b.loophole closers)

Child Credit. The proposal provides a $250 per child tax credit for every child under the age of 17. The credit is increased to up to $500 if that amount is contributed to an Individual Retirement Account in the child's name.

Education Incentives. The plan provides two separate education incentives. The first is an above-the-line deduction of up to $2,500 for interest expenses paid on education loans. The second incentive is an above-the-line deduction for qualified education expenses paid for the education or training for the taxpayer, the taxpayer's spouse, or the taxpayer's dependents. Both deductions will be phased out for taxpayers with incomes above a certain threshold. The phaseout thresholds and the dollar amounts for the deductions are subject to revenue considerations.

Capital Gains: Individuals. The proposal allows individuals to deduct 50 percent of their net capital gain in computing taxable income. It restores the rule in effect prior to the Tax Reform Act of 1986 that required two dollars of the long-term capital loss of an individual to offset one dollar of ordinary income. The $3,000 limitation on the deduction of capital losses against ordinary income would continue to apply. Under the plan, a loss on the sale of a principal residence is deductible as a capital loss. These changes apply to sales and exchanges after December 31, 1995.

Capital Gains: Corporations. The plan caps the maximum tax rate on corporate capital gains at 31 percent. This change applies to sales and exchanges after December 31, 1995.

Capital Gains: Small Business Stock. The maximum rate of tax on gain from the sale of small business stock by a taxpayer other than a corporation is 14 percent under the proposal. The plan also repeals the minimum tax preference for gain from the sale of small business stock. Corporate investments in qualified small business stock would be taxed at a maximum rate of 21 percent. The plan increases the size of an eligible corporation from gross assets of $50 million to gross assets of $100 million, and repeals the limitation on the amount of gain an individual can exclude with respect to the stock of any corporation. The proposal modifies the working capital expenditure rule from two years to five years. Finally, an individual may roll over the gain from the sale or exchange of small business stock if the proceeds of the sale are used to purchase other qualifying small business stock within 60 days. The increase in the size of corporations whose stock is eligible for the exclusion applies to stock issued after the date of the enactment of this proposal. All other changes apply to stock issued after August 10, 1993.

Individual Retirement Accounts. The proposal expands the number of families eligible for current deductible IRAs by increasing the income thresholds. The annual contribution for a married couple is increased to the lesser of $4,000 or the combined compensation of both spouses. Penalty-free withdrawals are allowed for first-time homebuyers, catastrophic medical expenses, higher education costs and prolonged unemployment. The plan creates a new type of IRA which can receive after-tax contributions of up to $2,000. Distributions from this new IRA would be tax-free if made from contributions held in the account for at least five years.

Estate Tax Relief. The plan provides estate tax relief for family-owned businesses by excluding the first one million dollars in value of a family-owned business from the estate tax and lowering the rate on the next one and one-half million dollars of value by 50 percent. To preserve open space, the plan excludes 40 percent of the value of land subject to a qualified conservation easement.

Other Provisions. The proposal contains a revenue neutral package extending the expired tax provisions. The plan also calls for increasing the self-employed health insurance deduction to 50%.

Loophole Closings and Other Reforms.

* disallow the interest deduction on corporate-owned life insurance
* phase out the tax deferral for large corporate farms
* reform the income forecast method of cost recovery
* modify the treatment of foreign trusts
* extend the Oil Spill Liability tax
* repeal advance refunds of diesel tax
* eliminate the interest exclusion for certain nonfinancial corporations
* extend and phase out the luxury tax on automobiles
* create Financial Asset Securitization Investment Trusts
* repeal the 50-percent interest income exclusion for financial institution loans to ESOPs
* reform the tax treatment of expatriates
* modify the basis adjustment rules under Section 1033
* repeal the lower-of-cost or market method of accounting for inventory
* treat certain preferred stock as "boot"
* modify the loss carryback and carryforward rules
* increase the penalties for filing incorrect information returns
* restrict like-kind exchanges of foreign property
* phase out the possession tax credit
* extend the FUTA surtax

CONSUMER PRICE INDEX (est. savings $110b.)

The plan includes an adjustment to the Consumer Price Index to correct biases in its computation that lead to it being overstated. The proposal reduces the CPI for purposes of computing cost of living adjustments and indexing the tax code by one-half of a percentage point in 1997 and 1998. The adjustment is reduced to three-tenths of a percentage point in 1999 and all years thereafter.

DISCRETIONARY SPENDING (est. savings $268b.)

The plan holds discretionary spending to an amount that is slightly below the fiscal year 1995 level for each of the next seven years. This is $81 billion less than the cuts proposed as part of the Balanced Budget Act and $29 billion less than the cuts proposed by the Administration.

OTHER MANDATORY SPENDING (est. savings $52 b.)

Housing. The proposal reforms the Federal Housing Administration's home mortgage insurance program to help homeowners avoid foreclosure and decrease losses to the federal government. It also limits rental adjustments paid to owners of Section 8 housing projects.

Communication and Spectrum. The plan directs the Federal Communications Corporation to auction 120 megahertz of spectrum over a 7-year period.

Energy & Natural Resources. The proposal call for the privatization of the US Enrichment Corporation and the nation's helium reserves. It extends the requirement that Nuclear Regulatory Commission collect 100% of its annual budget through nuclear plant fees. The proposal allows for the sale of the strategic petroleum reserve oil (SPRO) at the faulty Weeks Island location and leases the excess SPRO capacity. Under the plan the Alaska Power Market Administration, various Department of Energy assets, Department of Interior (DOI) aircraft (except those for combating forest fires), Governor's Island, New York, and the air rights over train tracks at Union Station would be sold. The plan raises the annual Hetch Hetchy rental payment paid by City of San Francisco and authorizes central Utah prepayment of debt.

Civil Service & Related. The plan increases retirement contributions from both agencies and employees through the year 2002, delays civilian and military retiree COLAs from January 1 to April 1 through the year 2002, and reforms the judicial and congressional retirement. Finally, the plan denies eligibility for unemployment insurance to service members who voluntarily leave the military.

Transportation. The proposal extends expiring FEMA emergency planning and preparedness fees for nuclear power plants, vessel tonnage fees for vessels entering the U.S. from a foreign port, and Rail Safety User Fees that cover part of the cost to the federal government of certain safety inspections.

Veterans. The plan extends seven expiring provisions of current law and repeals the "Gardener" decision thereby restoring Veterans Administration's policy of limiting liability to those cases in which an adverse outcome was the result of an accident or VA negligence. Pharmacy co-payments are increased from $2 to $4, but not for the treatment of a service-connected disabilities or for veterans with incomes below $13,190. Also, the increase applies only to the first 5 prescriptions that a veteran purchases per month. The proposal authorizes a veteran's health insurance to be billed when a VA facility treats service-connected disabilities.

Student Loans. The proposal caps the direct lending program at 40 percent of total loan volume. It imposes a range of lender and guarantor savings. The proposal does not include fees on institutions, the elimination of the grace period, or any other provisions negatively impacting parents or students.

Debt Collection. The plan authorizes the Internal Revenue Service to levy federal payments (i.e. RR retirement, workman's compensation, federal retirement, Social Security and federal wages) to collect delinquent taxes.

Park Service Receipts & Sale of DoD Stockpile. The proposal raises fees at National Parks. It directs the Defense Department to sell materials in its stockpile that are in excess of defense needs (i.e. aluminum and cobalt) -- but not controversial materials such as titanium.

Long-Term Federal Retirement Program Reforms. The plan increases the normal civilian service retirement eligibility to age 60 with 30 years of service, age 62 with 25 years of service, and age 65 with 5 years of service. Military retirement eligibility for active duty personnel is increased to age 50 with 20 years of service, with a discounted benefit payable to a person retiring before age 50. No changes are proposed for the retirement eligibility of reserve servicepersons. These changes would not apply to current or previously employed federal workers or anyone who is now serving or who has previously served in the military. Although these changes will not produce budget savings in the coming seven years, they do provide significant savings over the long-term.

THE WHITE HOUSE

WASHINGTON

March 7, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: John Hilley

SUBJECT: Current Status of Breaux/Chafee Medicaid Alternative

cc: Carol Rasco, Alice Rivlin and Laura Tyson

During the last two days, the Members of the Breaux/Chafee balanced budget group have been meeting on the Medicaid provisions of their balanced budget proposal. If the tentative decisions they have made hold, the cuts and structural reforms in their package will virtually mirror your current proposal or, at minimum, be consistent with some of the compromises you have indicated would be acceptable. This memo, which Chris Jennings helped me draft, provides a quick summary of their current proposal and a sense of the politics and timing surrounding it.

Background on Current Breaux/Chafee Medicaid Policy

We have always evaluated any Medicaid proposal on the degree to which it provides for needed, new flexibility to the Governors and how well it ensures the financing, eligibility, benefits, and enforcement provisions that we believe are essential elements of the Medicaid "guarantee." The current Breaux/Chafee Medicaid proposal has either adequately addressed our previously stated concerns about the NGA resolution or, as is the case with the enforcement issue, has yet to make a final call on a problematic provision. Specifically:

- **Flexibility:** They incorporate all of your major new state flexibility provisions, including the repeal of Boren, the repeal of the cost-based reimbursement requirement for community health centers, and the elimination of the waiver process for states implementing managed care or attempting to expand coverage. They also change the status of community health center services to an optional, rather than a mandatory service.

- **Financing:** They build off the NGA financing formula, but eliminate the reduced state matching and the new provider tax provisions that the Governors advocated. Like your per capita cap, the structure seems to assure that federal dollars increase with enrollment. Also as in your financing proposal, they assume DSH cuts, with a portion of the savings being dedicated to set-asides for undocumented aliens (as was the case in the Republican bill as well) and community and rural health centers.

- **Eligibility:** They reinstate the children 13-18 phase-in provision and they keep a federal definition of disability, but amend it as in the welfare agreement. (As you may recall, this makes coverage optional for alcoholics, chemical and substance abusers, and some functionally-impaired SSI children.)

- **Benefits:** They appear to keep current law and standards for both mandatory and optional benefits, with the exception of giving the HHS Secretary the authority to narrow the definition of treatment services under EPSDT. (Their benefits recommendations are, therefore, more "liberal" than the fall-back position that we have discussed with you.)

- **Enforcement:** Although they reportedly are sympathetic to maintaining a federal right of action of individuals, they have not made a final decision on this issue. It is clear, however, that they are looking at options that you have supported previously, including the requirement that recipients go through the entire administrative appeals process prior to being able to file a case against the state.

- **Miscellaneous:** They are retaining current federal nursing home standards and enforcement provisions. They are very sympathetic to keeping Medicaid in Title XIX, but they have not made a final decision on this issue.

Process

While developments surrounding the Breaux/Chafee Medicaid package are extremely encouraging, they cannot be viewed as "real" until and unless they are publicly released. The most important, and as yet unanswered, question is how Senator Dole will react to the package. Since the Republican Governors will not find this compromise to their liking, Senator Dole may come to a similar conclusion and pressure the moderate Republicans to backtrack. Even if they don't backtrack, it would be conceivable to see Republicans take the position that they support this package ONLY in the context of a balanced budget. They might say that they took a more moderate Medicaid approach only because they were "winning" on some of the other Republican entitlement priorities. For example, they might (internally) cite their 31 percent Medicare Part B premium provision that is assumed in the Breaux/Chafee package. If they take this "only in the context of a balanced budget" position, we may find any Republican-supported Medicaid/Welfare amendment on a debt limit to be a much more harsh and unacceptable Medicaid proposal than the one outlined above.

Timing

It is uncertain when the Breaux/Chafee group will go public with their new Medicaid and balanced budget proposal. They want to get it scored by CBO before they do, but they also understand that each passing day makes it more unlikely any package will have sufficient momentum to pass the Congress. It seems likely, however, that it will take at least another week before they will be able to release their package.

We will continue to keep a close watch on the Breaux/Chafee group. However, our best strategy seems to stay a step away from their work. If we are associated with it, the Republicans (and even some Democrats) may feel obliged to move to a more conservative position. We will keep you posted on developments.

DRAFT

April 25, 1996

The Honorable John Chafee / Breaux
U.S. Senate
Washington, D.C. 20510

Dear Senator Chafee:

We are writing to applaud your bipartisan efforts to balance the federal budget while making responsible changes to Medicaid and welfare programs. Democratic governors have had a long-standing interest in balancing the federal budget as many of us are required to do in our states.

While we have not had an opportunity to review your proposal in detail, the summary we have seen is both encouraging and practical. And, while we cannot comment on all aspects of your comprehensive package, we believe your proposal goes far toward achieving the principles outlined in the National Governors Association's agreements on Medicaid and welfare. Your reform package will dramatically improve the Medicaid program while achieving significant savings and go a long way in assisting states in their efforts towards welfare reform.

In the governors' agreement on Medicaid, the basic premise is that individuals have a guarantee of coverage and that the dollars will follow the people. Your outline indicates that you preserve that guarantee and have a funding formula very similar to the NGA agreement. As you know well from our on-going discussions, these principles are critical to us and are the basis of our concern about the draft proposal from the House Commerce Committee which we believe would have undermined guaranteed coverage for individuals. And, while a final proposal is yet to be seen, reportedly it will not contain a formula reflective of the NGA agreement where the dollars clearly follow the people.

Your summary shows that the Centrist Coalition package includes a strong welfare component that builds on the major tenets of the NGA bipartisan welfare agreement. Your proposal would time-limit benefits and strengthen work requirements while protecting children. These provisions most certainly complement state efforts to reform welfare and are consistent with governors' desire to impel Congressional action this year.

Most importantly, your Coalition has forged a bipartisan compromise with your proposal. If anything is to be learned from the health care and welfare battles over the past years, it is that reform will never become a reality in a purely partisan environment. Our goal has always been to have a bipartisan effort on these issues which would lead to a bipartisan discussion in Congress. As administrators of these critical state programs, we have been very concerned about the stalled legislative process in the relevant House and Senate committees. We have worked tirelessly over the past year with you, other members of the Congress, the Administration and Republican governors towards effective, comprehensive reform. We appreciate your efforts and dedication to completing this task this year.

We appreciate your continued willingness to work with governors and stand ready to assist with your efforts to achieve meaningful reform that will enable and bolster our efforts at the state level to provide meaningful, cost-effective programs for our people.

With best regards,

Sincerely,

Governor Gaston Caperton

Governor Bob Miller

Governor Tom Carper

Governor Lawton Chiles

Governor Roy Romer