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Perot

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b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

PM-Medicare-Perot,0490

Perot Urges GOP Senators to Test First Any Big Changes in Medicare

By CHRISTOPHER CONNELL= Associated Press Writer=

WASHINGTON (AP) Ross Perot urged Republican senators today to hit the brakes on Medicare spending, but cautioned them first to test any sweeping changes in the huge health plan for the elderly and disabled.

The Dallas billionaire businessman, brandishing a copy of his book ``Intensive Care'' on the financial woes of Medicare and Medicaid, also said the elderly must play a bigger role in holding down medical costs. Now, he said, they have ``no incentive to look at their Medicare bill.''

``You've got to have discipline on spending,'' said Perot. ``You cannot just have a go-out-and-party. ... We've got to redo the program.''

Perot also suggested making the wealthy pay more for their Medicare coverage. ``I think it would be a joke for me to ever get a Medicare check,'' he said. ``Why give it to people who don't need it?''

Four Republicans but no Democrats turned up for the Senate Finance Committee hearing held during the final week of Congress's summer recess.

Sen. Bob Packwood, R-Ore., the chairman, said that Medicare's problems, like objects seen in an auto's side-view mirror, ``are closer than they appear. ... We're talking about (bankruptcy) seven years from now.''

Perot said that when Medicare and Medicaid were created 30 years ago, they were projected to cost $9 billion and $1 billion respectively in 1990. Instead, the bills came in at $106 billion and $91 billion.

``We're making the elderly wards of the state,'' said the erstwhile independent presidential candidate, who likened seniors to American Indians who lost their spirit after the government put them on reservations.

Perot said Congress should create a model program and ``pilot test'' new ways of covering Medicare's 37 million beneficiaries. He said lawmakers should not write rigid rules into law, but keep the program ``dynamic.''

``Let's experiment with it,'' he advised. ``Let's not dive into an empty pool at night and break our necks.''

But he added that he was not advising lawmakers to abandon their goal of a rapid slowdown in the program's growth.

``You've got to put the lid on this thing and slow it down now to balance the budget,'' he said.

The Republicans estimate savings of $270 billion from Medicare and $182 billion from Medicaid over seven years as part of their plan to balance the federal budget and keep Medicare's hospital trust fund from running out of cash. They have yet to offer details, but their plan is expected to feature incentives to encourage more seniors to sign up for HMOs and other forms of managed care.

Congressional Democrats contend the GOP cuts go far deeper than necessary, and they accuse the GOP of going after the health programs to pay for tax cuts for the wealthy. But President Clinton, too, has proposed saving billions of dollars from both Medicare and Medicaid.

**** filed by:APW-(TX) on 08/30/95 at 13:08EDT ****
**** printed by:WHPR(LMCH) on 08/30/95 at 13:54EDT ****

Jon - FYI -
Call me re a
5:30 meeting on
this w/ Erskine.

MEMORANDUM

TO: Interested Parties August 29, 1995
FR: Chris Jennings and Jennifer Klein
RE: Interesting Background Materials on the Medicare Trust Fund and Ross Perot

Tomorrow morning, the Senate Finance Committee will be holding a hearing on the Medicare Trust Fund and options for reform. The witness testifying who will likely receive the most attention will be Ross Perot. (Because of the late notice and the fact it is in the middle of the recess, no Democratic Finance Committee Member will be attending; incidentally, no Administration witness was invited to testify or even to submit testimony.)

Attached for your information and use are:

(1) a one page summary reviewing the positions of the President, Ross Perot and the Republicans on Medicare reform;

(2) a table that compares some of Mr. Perot's specific suggestions with those of the Administration;

(3) a copy of the less than balanced hearing witness list; and

(4) a reprint of the August 28th *Los Angeles Times* Medicare Trust Fund Fact vs. Fiction Op Ed piece, which was written by Trustees' Shalala, Rubin, Reich, and Chater.

Despite suggestions by some that Ross Perot is advocating a similar set of reforms being suggested by the Republicans, Mr. Perot is not on record of supporting Medicare and Medicaid cuts totaling anywhere near $450 billion ($270 billion in Medicare cuts + $182 billion in Medicaid cuts.) In fact, he has explicitly stated in his book that the program should not rush to throw people into managed care and should instead utilize pilot studies to see what is feasible in this area.

The President agrees with Mr. Perot that we need to strengthen the Medicare Trust Fund and has, in fact, made a proposal to do just that in his balanced budget initiative. (His $124 billion in savings over seven years stengthens the Trust Fund though October, 2006, leaving the Fund stronger than it has been in 9 out of the last 14 years.) The President's own proposal therefore proves that it is not necessary to decimate the program and the 37 million people it serves (with an unnecessary $270 billion cut) in order to "save" the program from going bankrupt.

Clinton, Perot, Republicans on Medicare

Strengthening The Medicare Trust Fund. President Clinton shares Ross Perot's commitment to strengthen the Medicare Trust Fund so that Medicare will be there for our parents and grandparents -- and our children and grandchildren.

Fixing the Trust Fund Without Putting Beneficiaries in a Fix. Since taking office the President has acted three times to extend the life of the Trust Fund. In 1993, he signed into law proposals that Perot supported to strengthen the Trust Fund -- over unanimous Republican opposition. Most recently, he has acted through his balanced budget plan to:

- Extend the life of the Trust Fund through 2006 -- eleven years from now.
- Protect beneficiaries from paying any new cost increases -- because we can solve the short-term problems of the Trust Fund without new out-of-pocket costs for older Americans on Medicare.

No Excuse to Cut Benefits. Some are trying to exaggerate the Medicare Trust Fund solvency problem to justify cutting Medicare benefits. The facts are that President Clinton's plan would put the Medicare Trust Fund in better shape than it has been in 12 out of the last 20 reports the Trustees have issued. The costs increases for beneficiaries that the Republicans have proposed do not go to improve the financial health of the Trust Fund. They would be used to pay for the big GOP tax cut.

Giving Medicare Beneficiaries More Choice President Clinton also agrees with Ross Perot that we need to make other changes to address the long-term problems in Medicare. But, as Perot says, we need to do this in a thoughtful way -- by giving Medicare beneficiaries more choices, rather than financially forcing them into a radically new and untested system.

- The President has proposed to expand managed care choices including a new preferred provider option and a new point-of-service option for beneficiaries in health maintenance organizations.
- He is also making sure that Medicare gives beneficiaries the clear and simple information they need to make choices.

Republicans Would Place Extreme Financial Burdens on Older Americans. The Republicans would cut Medicare by $270 billion -- $71 billion in the year 2002 alone. Because the Republicans need so much so fast from Medicare, they are, despite Mr. Perot's warnings, plunging ahead too quickly on vouchers. The choice for people on Medicare will be simple: pay more or get less.

- Beneficiaries who wish to keep their fee-for-service plan and a guarantee of their choice of doctor will have to pay significantly more. Since 75 percent of these beneficiaries have incomes below $25,000, it is hard to see how they will be able to do that.
- Those who are financially forced into managed care will have their current benefits threatened. This is because the overly tight growth rates proposed by the Republicans will over time diminish the value of the voucher and the type of coverage it can buy.

"INTENSIVE CARE" ROSS PEROT'S KEY ASSERTIONS AND ADMINISTRATION'S RESPONSE

Perot's Assertion	Supporting Arguments and Strategies	Administration's Response
WE NEED TO ACT NOW BECAUSE:	o the Medicare trust fund is going bankrupt.	o The President's Plan maintains trust fund solvency through 2006, without new beneficiary cuts.
	o it is critical to have a safety net for the needy, but Medicaid is overwhelming federal, state and local budget	o Agree that Medicaid is both critically important and in need of reform; concerned that deep cuts would jeopardize states and beneficiaries.
	o health care inflation reduces wages, increases taxes, and is a barrier to balancing the budget.	o Agree that we should aim to alleviate the tax payers' burden and reduce the deficit; however, not by simply shifting the financial burden onto beneficiaries.
	o program savings can benefit all consumers; however, the goal is not to finance a tax cut.	o Agree
WE SHOULD PURSUE A TWO-PART STRATEGY: **1) Take immediate steps to reduce projected spending**	**Medicare** o provides a list of Medicare savings options but does not recommend specific budget targets or policies. o Savings proposals include both provider and beneficiary options; on the beneficiary side, proposals include increases in Part B deductible and premiums, and provision prohibiting Medigap plans from paying first $1,500 in cost sharing. **Medicaid** o No specific budget or savings targets recommended. Significantly divergent programatic changes considered. For example, either block grant the program or make it fully federal.	o Agree that there should be spending reductions, but limit them to $124 Billion without any new beneficiary cuts. o The Administration has proposed spending reductions totaling $54 Billion. This level of cuts will improve program efficiency while safeguarding coverage.
2) "Modernize" the Programs; i.e. pilot test and then implement long-term solutions	o For both programs, we should: - increase the use of managed care - consider replacing current financing mechanisms with vouchers for private insurance - explore the use of Medical Savings Accounts	o Pilot testing is in line with the Administration's policy. We are currently: - sponsoring a demonstration of innovative Medicare managed care approaches - working with the private sector to develop Point-of-Service and PPO options for seniors o We have concerns about Voucher programs and MSAs. - Voucher programs could force seniors into managed care while increasing their financial liability significantly. - MSAs may lead to greater risk selection and underutilization of cost-effective preventive services

Committee On Finance

Bob Packwood, Chairman

NEWS RELEASE

FOR IMMEDIATE RELEASE
AUGUST 23, 1995

PRESS RELEASE #104-108
CONTACT: Eric L. Bolton
(202) 224-4515

FINANCE COMMITTEE TO HEAR TESTIMONY ON THE FUTURE OF MEDICARE

Washington, D.C.--Senator Bob Packwood (R-OR), Chairman of the Senate Finance Committee, today announced that two panels of witnesses will testify before the Committee on the next thirty years of the Medicare program.

"Ross Perot has again made a significant contribution to the public policy debate with his new book Intensive Care: We Must Save Medicare and Medicaid Now," Senator Packwood said. "Medicare is thirty this year, and the testimony of Mr. Perot and groups representing current and future Medicare recipients will be important for improving the Medicare program so it may celebrate many more birthdays."

In his book, Mr. Perot summed up the challenge facing Congress this Fall, "If the United States can put men on the moon and bring them back, then surely we can figure out how to save and improve Medicare and Medicaid. It must be done to preserve health care for the sake of people who truly need it while improving the financial strength of our nation for our children."

The hearing will be held on Wednesday, August 30, 1995, in room SD-215 of the Dirksen Senate Office Building, beginning at 9:30 a.m.

Oral testimony will be heard from invited witnesses only. Witnesses scheduled to testify are:

Panel I
Mr. Ross Perot, The Perot Group; Dallas, Texas.

Panel II
Mr. Jake Hansen, Vice President for Government Affairs, The Seniors Coalition; Washington, D.C.

Mr. Jonathan D. Karl, Co-Founder, Third Millennium; Darien, Connecticut.

Los Angeles Times
MONDAY, AUGUST 28, 1995

Commentary

PERSPECTIVE ON MEDICARE

Rehabilitation Needed, Not Surgery

The trust fund's crisis isn't new; the President offered a solution to insolvency.

By ROBERT E. RUBIN, DONNA E. SHALALA, ROBERT B. REICH and SHIRLEY S. CHATER

Our nation is involved in a serious examination of the status and future of Medicare. Congressional Republicans have called for $270 billion in cuts over the next seven years, claiming that Medicare is facing a sudden and unprecedented financial crisis that President Clinton has not dealt with, and that all of the majority's cuts are necessary to avert it.

While there is a need to address the financial stability of Medicare, the congressional majority's claims are simply mistaken. As trustees of the Part A Medicare Trust Fund, which is the subject of the current debate, and authors of an annual report that regrettably has been used to distort the facts, we would like to set the record straight.

• *Concerns about the solvency of the Medicare Part A Trust Fund are not new.* The solvency of the trust fund is of utmost concern to us all. Each year, the Medicare trustees undertake an examination to determine its short-term and long-term financial health. The most recent report notes that the trust fund is expected to run dry by 2002. While everyone agrees that we must take action to make sure that the fund has adequate resources, the claim that it is in a sudden crisis is unfounded.

The Medicare trustees have nine times warned that the trust fund would be insolvent within seven years. On each of those occasions, the sitting President and members of Congress from both political parties took appropriate action to strengthen the fund.

Far from being a sudden crisis, the situation has improved over the past few years. When President Clinton took office in 1993, the Medicare trustees predicted the fund would be exhausted in six years. The President offered a package of reforms to push back that date by three years and the Democrats in Congress passed the plan. In 1994, the President proposed a health reform plan that would have strengthened the fund for an additional five years.

So what has caused some members of Congress to become concerned about the fund? Certainly not the facts in this year's trustees report that these members continually cite. The report found that predictions about the solvency of the fund had improved by a year. The only thing that has really changed is the political needs of those who are hoping to use major Medicare cuts for other purposes.

• *President Clinton has presented a plan to extend the fund's life.* Remarkably, some in Congress have said that the President has no plan to address the Medicare Trust Fund issue. But he most certainly does. Under the President's balanced budget plan, payments from the trust fund would be reduced by $89 billion over the next seven years to ensure that Medicare benefits would be covered through October 2006—11 years from now.

• *The congressional majority's Medicare cuts are excessive; it is not necessary to cut benefits to ensure the fund's solvency.* The congressional majority says that all of its proposed $270 billion in Medicare cuts over seven years are necessary. Certainly, some of those savings would help shore up the fund, just as in the President's plan. But a substantial part of the cuts the Republicans seek—at least $100 billion—would seriously hurt senior citizens without contributing one penny to the fund. None of those savings (taken out of what is called Medicare Part B, which basically covers visits to the doctor) would go to the Part A Trust Fund (which mostly covers hospital stays). As a result, those cuts would not extend the life of the trust fund by one day.

And those Part B cuts would come out of the pockets of Medicare beneficiaries, who might have to pay an average of $1,650 per person or $3,300 per couple more over seven years in premiums alone. Total out-of-pocket costs could increase by an average of $2,825 per person or $5,650 per couple over seven years. According to a new study by the Department of Health and Human Services, these increases would effectively push at least half a million senior citizens into poverty and dramatically increase the health care burden on all older and disabled Americans and their families. The President's plan, by contrast, protects Medicare beneficiaries from any new cost increases.

As Medicare trustees, we are responsible for making sure that the program continues to be there for our parents and grandparents as well as for our children and grandchildren. The President's balanced budget plan shows that we can address the short-term problems without taking thousands of dollars out of peoples' pockets; that would give us a chance to work on a long-term plan to preserve Medicare's financial health as the baby boom generation ages. By doing that, we can preserve the Medicare Trust Fund without losing the trust of older Americans.

Robert E. Rubin is secretary of the Treasury. Donna E. Shalala is secretary of health and human services. Robert B. Reich is secretary of labor. Shirley S. Chater is commissioner of Social Security.

E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

29-Aug-1995 05:51pm

TO: (See Below)

FROM: Jason S. Goldberg
Office of Cabinet Affairs

SUBJECT: Medicare Talking Points 8/30/95

Senate Finance Committee Hearing on Medicare
August 30, 1995

On Wednesday, August 30, the Senate Finance Committee will hold a hearing on the Medicare Trust Fund and options for reform. Ross Perot will testify. (Because of the late notice and the fact it is in the middle of the recess, no Democratic Finance Committee Member will attend; incidentally, no Administration witness was invited to testify or even to submit testimony.)

Despite suggestions by some that Ross Perot is advocating a similar set of reforms being suggested by the Republicans, Mr. Perot is not on record of supporting Medicare and Medicaid cuts totaling anywhere near $450 billion ($270 billion in Medicare cuts + $182 billion in Medicaid cuts.) In fact, he has explicitly stated in his book that the program should not rush to throw or financially coerce beneficiaries into managed care and should instead utilize pilot studies to see what is feasible in this area.

The President agrees with Mr. Perot that we need to strengthen the Medicare Trust Fund and has, in fact, made a proposal to do just that in his balanced budget initiative. (His $124 billion in savings over seven years stengthens the Trust Fund though October, 2006, leaving the Fund stronger than it has been in 9 out of the last 14 years.)

The President's own proposal therefore proves that it is not necessary to decimate the program and the 37 million people it serves (with an unnecessary $270 billion cut) in order to "save" the program from going bankrupt.

Clinton, Perot, Republicans on Medicare

''America is like Indonesia, influence is for sale.'' The British Economist said, ``Washington's unlawful ways of corrupting ways its government are unrivaled anywhere in the world.'' That gets us right back to where we started.

RUSSERT: We have to take a quick break. We'll be back with Ross Perot after this message.

We're back, live from Dallas at Ross Perot's National Issues Conference and we're talking with the man himself, Ross Perot.

Medicare. You've written a book, called ``Intensive Care: We Must Save Medicare/Medicaid Now.'' You list many options, which Congress should consider.

Both Republicans and Democrats are saying, ``we have to save Medicare, we have to find savings in Medicare, but we can do it without affecting beneficiaries in anyway shape or form. They will have the same benefits, the same premiums, the same level of care.'' Is that honest?

PEROT: Well, my answer to that is I have figured out a way to eliminate gravity, and I have also invented perpetual motion. Do you believe in it?

RUSSERT: No.

PEROT: OK. That's my answer.

OK. The facts are we have run away costs. Here is what we never do when we have a problem, and if the American people only listen to one thing I say for the rest of my life I hope they listen to this.

When you have a problem in life or when you have a problem in business, you sit down in a thoughtful, rational way, analyze the problem, figure out what should work, here we have alternative solutions, there is a next step, then you discuss it and brain storm it, and in my business career some young twenty-three year old always comes up with a off the wall idea that turns out to be the best one.

But no matter how good it is, you pilot test it.

PEROT: You'd never mass produce a new airplane. Just think. You put the first one as a model in the wind tunnel. Then you, through painstaking analysis, go ahead and build the first one. Then you say, OK, let's take off. No. You wiggle the tail. You check out everything. You start the engines and let them run. Finally, you do something fairly risky. You taxi, and then you take off.

What works in health care in New York City won't work in a little country town. Fact. One shoe will not fit every foot. Let's come up with pilot programs with the best of these new ideas, check them out, make them work, and here is what has killed Medicare. It is frozen by legislation.

There are people in our government who have brilliant ideas to improve it. In business, you'd improve everything every day.
What if we said, freeze your program. Never change it. It's a great program. You're on top of the charts. Don't touch it. It will die. Right? It would die.

Same with Medicare. There are people in Washington who, for years, have known how to optimize and improve it. When we come up with our new system, no matter how good it is, we need to leave it open for change and have a small group that can authorize change, pilot test the new changes, make sure they're right, and then, off you go.

RUSSERT: A couple of things you mentioned. One is, the life expectancy is now 76 for the average American. Should we consider raising Medicare from 65 to 68?

PEROT: We have to consider all these things.

RUSSERT: Means testing. If people ...

PEROT: Absolutely.

RUSSERT: If people are well off, why do they need Medicare?

PEROT: We don't. It would be morally wrong for me to ever take Medicare or Social Security.

When President Bush's economic adviser, Dr. Boskin, before he was in the White House ... He and I were visiting, and he told me one day that if everybody who did not need Social Security refused to take it, it would save $100 million a year. Interesting phenomenon. But you would have to check ...

RUSSERT: The deductible, from 1970 to 1990, went from $50 to $100. The federal cost of Medicare went up 2,100 percent.

PEROT: Through the roof. Exactly.

RUSSERT: Should we consider raising the deductible for people?

PEROT: Well, you've got to look at every single ...

You know, everything's on the table.

RUSSERT: Everything?

PEROT: Everything has to be on the table when you're analyzing a problem. Then you come up with a new plan. Then you pilot test the new plan, and you're going to find out that what works in this little town is very different from New York City, so Medicare can't be one shoe across ...

No social program we have works, and here's why, and if the American people will listen to two things I have to say in my lifetime, and this is the second.

We go from noble idea, and our social programs typically are noble ideas, whether it's education, whether it's the poor, whether it's, you name it, it's a noble idea. Then, massive legislation, massive funding, instant massive production, massive cost overruns and failure, because we never tested, debugged it, made it work and kept it dynamic.

RUSSERT: I just want to finish up, David.

RUSSERT: Can you find $270 billion in savings in Medicare over seven years through pilot programs?

PEROT: You can find the new program that will do the job and whatever you have to cut, you can figure out how to do that with the least pain to the American people through these pilot programs, and then before you put it in nationwide, you know exactly what you've got.

RUSSERT: David.

BRODER: Apply the same thing if you would to welfare. The Senate now is debating alternatives to welfare. Are you saying that welfare grants to the states should go out from Washington with no strings, so that states could experiment?

PEROT: There's an interesting phenomenon here. We're saying, turn welfare back to the states, but keep the money coming into Washington. Interesting. Right?

BRODER: Yes.

PEROT: The real purpose in turning welfare back to the states would be for the states to fund it and stop the flow of money here and back to there. Let the money stay there over time. Very important, because when the money goes to Washington, a lot of it will get wasted getting back to here.

Comments on Perot's Analysis

- Perot identifies problems but offers few if any solutions. His chapter on Medicare solutions is only fifteen pages and the bulk of that is devoted to presenting a series of CBO Medicare savings proposals, all of which have been previously considered by the Administration and the Congress.

- His long term solution is to try demonstrations, find out what works, and then apply that knowledge on a larger scale. He asserts that one solution may not be appropriate for all people and places. This prescription is not significantly different from current policy. However, the two specific demonstrations he identifies are patent Republican proposals: voucher programs and MSAs.

Emphasize ← how diff. from R's because fast v. demonstration

- His solution to the Medicaid crisis is to 1) try experiments (there are 56 state laboratories); 2) tighten up DSH regulations and further limit the types of hospitals which are eligible; 3) Expand Community Health Centers (to channel the poor away from hospital emergency rooms; 4) experiment with Medicaid vouchers (but this may be incompatible with expanding community health centers); and 5) block grant Medicaid with an emergency fund (but without sparking a formula fight).

- His analysis of Medical Savings Accounts is misleading because he suggests everyone can be a winner. In fact the premium savings for a catastrophic policy are probably not large enough to fully fund the deductible. People with chronic illnesses will always exhaust their Medical Savings Account and pay more out-of-pocket before the catastrophic benefits kick in.

- His discussion of managed health care is balanced and emphasizes that we do not yet know whether it works to save the government (and individuals) money.

Clinton, Perot, Republicans on Medicare

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Committee On Finance

Bob Packwood, Chairman

NEWS RELEASE

FOR IMMEDIATE RELEASE
AUGUST 23, 1995

PRESS RELEASE #104-108
CONTACT: Eric L. Bolton
(202) 224-4515

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Mr. Jonathan D. Karl, Co-Founder, Third Millennium; Darien, Connecticut.

- More -

CLINTON ADMINISTRATION

A Report for the United We Stand America Convention

Dallas, Texas
August 1995

Clinton Presidential Records
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Health Cost Cures

By Spencer Rich
Washington Post Staff Writer

Ross Perot may be a political maverick, but not when it comes to Medicare and Medicaid. His prescription for curing the financial ills of the two weighty programs closely resembles the strong medicine being concocted by House and Senate Republicans as they prepare for a tremendous Capitol Hill fight next month.

"If the United States can put men on the moon and bring them back, then surely we can figure out how to save and improve Medicare and Medicaid," the optimistic titan of United We Stand America declares in a just-published book called "Intensive Care."

The book lays out Perot's ideas on how to overhaul the Medicare and Medicaid health programs and cut their growth rates to avert a budget train wreck. It outlines the problem as he sees it: Program costs are rising so fast that without some action, Medicare's hospital program will go broke in 2002 and combined federal spending on Medicare and Medicaid will skyrocket from $267 billion a year to $690 billion in 2005.

Perot's options for holding down the growth of Medicare, which covers 37 million elderly and disabled Americans, include cutting payments to doctors and hospitals, forcing beneficiaries (particularly the well-to-do) to pay more out of pocket, and giving beneficiaries an option to buy their own health policies on the private market with a government-funded voucher. His theory is that competition for business will hold prices down. The voucher choices could include fee-for-service plans, HMOs, where a health group would provide all services for a predetermined annual fee, and Medical Savings Accounts (MSAs), where a person buys a policy to protect against "catastrophic" costs but must pay for the first few thousand dollars of care each year out of pocket.

It's not surprising these options are similar to Republican proposals. In the past, Perot often has taken a market-oriented approach to the government's problems, as do many Republicans. Moreover, the brain trust behind the book includes former Bush administration adviser Deborah Steelman, an attorney now representing Prudential, Aetna, Cigna and other insurers that favor a market approach; Ron Anderson, the head of Parkland Hospital in Dallas; Mike Poss, chief financial officer of the Perot business group; and Russell Verney, executive director of United We Stand America.

For Medicaid, the federal-state health program for about 37 million low-income people, Perot also suggests a "voucher worth a certain amount of money" so beneficiaries can "purchase their own health care plans." Fixed "block grant" payments to the the states are another option he favors.

Though similar to Republican options, Perot's ideas are in some ways more moderate. Congress has voted to cut the growth of Medicare by $270 billion and Medicaid by $180 billion over the next seven years. Democrats and the White House charge that such large cuts in only seven years would hurt recipients and are not needed to save the programs but rather to balance the budget and give a large tax cut to the well-to-do.

In his new book, Perot says competition would hold down spiraling Medicare and Medicaid costs.

Perot doesn't outline targets or a timetable. He advises "pilot testing" rather than simply plunging ahead on some of his ideas. He concedes that vouchers, heavy use of MSAs and widespread use of HMOs may not work as well as he and Republicans hope.

Where Perot falls short is in addressing four sticky but crucial questions:

- One is whether vouchers and the wide use of HMOs will save enough money to cut the programs' growth to manageable proportions. Nobody really knows.
- Another is how well MSAs will work. In an MSA, according to a paper prepared for the Kaiser Family Foundation, Medicare vouchers might amount to $5,200, based on the average costs of Medicare benefits per person. Beneficiaries might use $3,700 to buy a "catastrophic benefits" policy that would cover health costs above $4,000. Costs under $4,000 would be paid by the beneficiary, who would have $1,500 left over from the voucher to help with those expenses. Anything remaining from the $1,500 could be pocketed, but if costs exceeded that amount, the person would pay extra. For some people that might be a substantial burden.
- Perot also glides lightly over the financial pain that could result to moderate-income Medicare patients by raising the Medicare eligibility age from 65 to 68 and increasing premiums and other charges.
- And like many others, he doesn't really answer the crucial question: After you've squeezed all reasonable savings out of the current system, what if the programs continue to grow too fast, particularly after the huge baby boom generation retires and the Medicare rolls double? Abolish the programs? Turn them into a shell? Deny Medicare to all but the poorest? Pump in some new tax money?

Perot doesn't say.

Al Kamen is on vacation. In the Loop will resume when he returns.

CLINTON ADMINISTRATION

A Report for the
United We Stand America Convention

Dallas, Texas
August 1995

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A third issue of concern to this organization is Medicare. You, Ross Perot and the Clinton Administration share a strong commitment to ensuring that Medicare will be there for our parents and grandparents -- *and* for our children and grandchildren. And we also share an understanding that in order to keep Medicare strong, we need to address the solvency of the Medicare Part A Trust Fund.

Since taking office, the President has acted three times to extend the life of the Trust Fund. In 1993, he signed into law a series of reforms that strengthened the Trust Fund by three years. In 1994, he proposed a health care plan that would have given it an additional five years. And his balanced budget plan would save the Trust Fund through at least 2006 -- eleven years from now. In fact, the President's budget would put the Medicare Trust Fund in better shape than it has been in 12 out of the last 20 reports on its financial health.

The President's plan does this while protecting Medicare beneficiaries. Here the President and Mr. Perot have different ideas. Mr. Perot has suggested increasing costs for people on Medicare by, for example, raising their premiums. The President's budget, on the other hand, eliminates the deficit, secures the Trust Fund, and still protects older Americans from paying any new Medicare costs.

Mr. Perot notes in his new book, Intensive Care, that strengthening Medicare is a two step process. The President's balanced budget shows how we can take the first step -- to shore up the Trust Fund for the short-term -- so that we give ourselves a chance to work together on a long-term plan to preserve Medicare. We also agree that there is an essential second step, and that's why we are making thoughtful and careful changes in the way Medicare works. The President has proposed to give Medicare beneficiaries more choices of health plans. And he has proposed to give them the clear and simple information they need to make those choices. But he has also stood firm against those who want to force people on Medicare into managed care to come up with enough savings to pay for tax cuts.

PRESIDENT CLINTON'S RECORD ON MEDICARE

Strengthening The Medicare Trust Fund President Clinton shares Ross Perot's commitment to strengthen the Medicare Trust Fund so that Medicare will be there for our parents and grandparents-- and our children and grandchildren.

Fixing the Trust Fund Without Putting Beneficiaries in a Fix Since taking office, the President has acted three times to extend the life of the Trust Fund. In 1993, he signed into law proposals that Perot supported to strengthened the Trust Fund -- over unanimous Republican opposition. Most recently, he has acted through his balanced budget plan to:

- Extend the life of the Trust Fund through 2006 -- eleven years from now.
- Protect beneficiaries from paying any new cost increases -- because we can solve the short-term problems of the Trust Fund without creating new out-of-pocket costs for older Americans on Medicare, 75% of whom live on incomes of less than $25,000.

No Excuse to Cut Benefits Some are trying to exaggerate the Medicare Trust Fund solvency problem to justify cutting Medicare benefits. The facts are that President Clinton's plan would put the Medicare Trust Fund in better shape than it has been in 12 out of the last 20 reports the Trustees have issued. Republican increased cost to beneficiaries do not go into the Trust Fund. They would be used to pay for the big GOP tax cut.

Giving Medicare Beneficiaries More Choice President Clinton also agrees with Ross Perot that we need to make other changes to address the long-term problems in Medicare. But, as Perot says, we need to do this in a thoughtful way-- by giving Medicare beneficiaries more choices, rather than financially forcing them into a radically new and untested system.

- The President has proposed to expand managed care choices including a new preferred provider option and a new point-of-service option for beneficiaries in health maintenance organizations.
- He is also making sure that Medicare gives them the clear and simple information they need to make choices.

Cracking Down On Fraud And Abuse The President also shares Ross Perot's concern about waste, fraud and abuse, and he has taken action to:

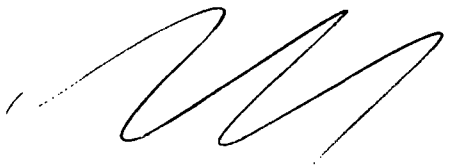
- Target fraud and abuse by home health agencies, nursing homes, and durable medical equipment suppliers in Medicare and Medicaid.
- Reinvest the money generated by anti-fraud activity to fund expanded enforcement.

3rd issue of concern to this org.

We agree w/ TF

→ You, Perot & Pres agree.

I have ...



New book - proposes new Medicare plan

ROTUS ag. ↑ prem.

We've shown you can bal. budget w/out raising premiums

President Clinton's Plans for Medicare

STRENGTHENING THE MEDICARE TRUST FUND. President Clinton shares Ross Perot's commitment to strengthen the Medicare Part A Trust Fund so that Medicare will be there for our parents and grandparents as well as for our children and grandchildren.

- **Trust Fund Problems Aren't New.** In an attempt to justify their $270 billion in Medicare cuts, the Congressional majority claims that the solvency of the Trust Fund is a sudden and unprecedented crisis and that they need all of these cuts to save the Trust Fund. However, Ross Perot is right: the Trust Fund problems aren't new. The Medicare trustees have warned nine times that the Trust Fund would be insolvent within seven years or less.

- **Fixing the Trust Fund Without Putting Beneficiaries in a Fix.**

    - Since taking office, the President has acted three times to extend the life of the Trust Fund.
    - Most recently, he has acted through his balanced budget plan to:
        - Reduce payments from the Part A Trust Fund by $89 billion over the next seven years to extend the life of the Trust Fund through 2006 -- eleven years from now.
        - Protect beneficiaries from paying any new cost increases -- because we can solve the short-term problems of the Trust Fund without increasing the health care burden on older Americans.

GIVING MEDICARE BENEFICIARIES MORE CHOICE. President Clinton also agrees with Ross Perot that we need to make other changes to address the long-term problems in Medicare. But, as Perot says, we need to do this in a thoughtful way -- by giving Medicare beneficiaries more choices, rather than financially forcing them into a radically new and untested system.

- The President has proposed to expand managed care choices, including a new preferred provider option and a new point-of-service option for beneficiaries in health maintenance organizations.
- He is also making sure that Medicare gives them the clear and simple information they need to make those choices.

CRACKING DOWN ON FRAUD AND ABUSE. The President also shares Ross Perot's concern about waste, fraud and abuse, and he has taken action to:

- Target fraud and abuse by home health agencies, nursing homes, and durable medical equipment suppliers in Medicare and Medicaid.
- Reinvest the money generated by anti-fraud activity to fund expanded enforcement.

PRESIDENT CLINTON'S RECORD ON POLITICAL REFORM

Shared Commitment to Political Reform

President Clinton shares UWSA's commitment to real political reform. The President believes we must restore the American people's faith in their government.

Reining in Special Interest Lobbyists

While Congress delays important political reforms, the President has taken action -- making some of Ross Perot's clean-up-government proposals a reality:

- Banned top officials from becoming foreign governments' lobbyists and extended a strict lobbying ban for top officials from 1 to 5 years.
- Ended tax deductibility for special interest lobbying.
- Announced an executive order that would require lobbyists to publicly and fully disclose if they lobby the executive branch.
- Is fighting special interest legislation to roll back basic environmental and public health protections.

Diminishing the Role Big Money Plays in Campaigns

The President shares Ross Perot's commitment to fixing campaign finance, and he has taken action:

- Moved forward on the New Hampshire agreement on a bipartisan commission to recommend campaign and lobbying reforms, subject to up-or-down vote. Asked John Gardner, prominent Republican, and Doris Kearns Goodwin, a political scientist, to start the commission.
- Called for strict limits on PAC contributions, a ban on soft money, and free air time for major federal candidates.

Reducing the Bureaucracy and Unnecessary Spending

The President has taken serious steps to cut wasteful spending and eliminate bureaucracy:

- Cut bureaucracy by 272,000 positions, the lowest level since President Kennedy.
- Cut White House staff by 25%, reduced car use by staff and challenged Congress to eliminate perks and cut their staffs.
- Fought for the line-item veto, a measure stalled in Congress.
- Is reinventing government to make it work better and cost less and launched an initiative to cut red tape and unnecessary regulation.

PRESIDENT CLINTON'S RECORD ON THE BUDGET AND THE ECONOMY

Serious Deficit Reduction

President Clinton won passage of an economic plan that achieves part or all of 19 of United We Stand's 28 budget proposals, nearly **70 percent**:

Major Reductions. UWSA: Proposed cutting deficit by $754 billion over 5 years. Clinton: Reducing deficit by $1 trillion over 7 years; proposed $1.1 trillion more in 10 years.

Cut Wasteful Spending. UWSA: Proposed cuts in wasteful spending. Clinton: Cut 300 programs to save $255 billion in first two budgets.

Targeted Investments. UWSA: Supported new investments in education, cities, R & D, defense reinvestment and infrastructure. Clinton: Increased investments in each targeted area. Republicans: Cut all areas.

Entitlment Reforms. UWSA: Proposed repealing limit on income subject to Medicare fees and raising portion of taxable Social Security. Clinton: Enacted changes to strengthen Medicare Trust Fund. Republicans: Opposed entitlement savings.

Immediate Reductions. UWSA: Called for immediate deficit reduction. Clinton: Lowered the deficit three years in a row for the -- first time since Truman. Republicans: 12 years of deficits. Opposed 1993 deficit reduction package.

Economic Growth. UWSA: Urged renewed economic growth. Clinton. Deficit reduction helped lower interest rates and create more than 7 million jobs.

A Balanced Budget that Puts People First

Now, President Clinton has a plan to balance the budget and make America stronger for the next century:

Education. Clinton: More investments in education. Republicans: Cut education by $41 billion over 7 years, including cuts in student loans, Head Start, GOALS 2000 and AmeriCorps.

Targeted Tax Cuts. Clinton: Tax cuts targeted to middle class families. Republicans: $245 billion tax cut; $10,000 cut for top 1%; tax increase for 14 million working families.

Health Reform. Clinton: Strengthen Medicare, protect beneficiaries from more out-of-pocket expenses. Republicans: Cut Medicare by $270 billion; increase out-of-pocket costs.

President Clinton's Plans for Medicare

Strengthening the Medicare Trust Fund. President Clinton shares Ross Perot's commitment to strengthen the Medicare Part A Trust Fund so that Medicare will be there for our parents and grandparents as well as for our children and grandchildren.

- **Trust Fund Problems are "Old News."** In an attempt to justify their $270 billion in Medicare cuts, the Congressional majority claims that the solvency of the Trust Fund is a sudden and unprecedented crisis. However, Ross Perot is right: the Trust Fund problems are "old news." The Medicare trustees have warned nine times that the Trust Fund would be insolvent within seven years or less. Each time, Congress and the White House have taken action to strengthen the Trust Fund.

  That's what President Clinton did in 1993 when the trustees predicted that the Trust Fund would be exhausted by 1999. He came forward with a deficit reduction plan that extended the life of the Trust Fund to 2002 -- an additional three years. And that's what he did again in 1994 when he proposed a health reform plan that would have strengthened the Trust Fund for an additional five years.

- **Fixing the Trust Fund Without Putting Beneficiaries in a Fix.** We can address the short-term problems of the Trust Fund without increasing the health care burden on older Americans. The Presidents' balanced budget plan:

  - Reduces payments from the Part A Trust Fund by $89 billion over the next seven years to extend the life of the Trust Fund through 2006 -- eleven years from now.
  - Protects beneficiaries from paying any new cost increases.

- **Republicans Would Make Older Americans Pay More For Medicare.** At least $100 billion of the Republicans' Medicare cuts would shift costs to older Americans -- who already spend 21 percent of their income on health care -- <u>without contributing one penny to the Trust Fund</u>.

  - The average Medicare beneficiary would pay $2,825 <u>more</u> out-of-pocket ($5,650 more per couple) over the next seven years.
  - The average beneficiary would pay $1,400 more for nursing home care and $1,700 more for home health care in the year 2002 alone.

Giving Medicare Beneficiaries More Choice. President Clinton also agrees with Ross Perot that Medicare beneficiaries should be given more managed care choices, and that's what the Clinton Administration is doing. But he also agrees that we must do this over time, to ensure that managed care in Medicare will contain costs while maintaining quality. Republican proposals that promise choice through Medicare "vouchers" aren't choice, they're financial coercion. Vouchers replace today's benefit guarantee with a fixed dollar amount. Because of the Republican's tight growth rates, the value of this voucher will decrease over time; as a result, beneficiaries will be forced to either pay more or get less.

President Clinton's Plans for Medicare

Strengthening the Medicare Trust Fund. President Clinton believes we must do more to strengthen the Medicare Trust Fund to save it for our grandchildren. Real reform means fixing the Trust Fund, without putting beneficiaries in a fix. Hi plan to balance the budget protects Medicare beneficiaries from high out-of-pocket costs:

- Reduces Medicare by $124 billion -- less than half the Republican cuts.
- Extends the solvency of the Medicare Trust Fund at least through 2006.
- Makes **no** new cuts targeted at beneficiaries.
- Accompanies reductions in spending with: 1) new prevention and long-term care benefits; 2) more choices among plans; 3) aggressive pursuit of fraud and abuse; 4) insurance reform; and 5) protections to make insurance cheaper for small businesses and working families.

We Should Not Pay for Tax Cuts for the Wealthiest Americans by Making Seniors Pay More for Medicare. The Republican budget cuts Medicare by $270 billion, shifting costs to seniors who already spend 21 percent of their income out-of-pocket on health care. 75 percent of these beneficiaries have incomes below $25,000. They cannot afford to pay more. If the Congressional majority didn't insist on a $245 billion tax cut for wealthy Americans, they wouldn't have to impose these burdens on middle class Americans.

Billions Added to Older Americans' Already High Costs:

- Every beneficiary who stays in the fee-for-service plan would pay at least $2,825 more in premiums and copayments over 7 years.
- The average Medicare recipient of skilled nursing home services or home health care will pay at least $1,400 or $1,7000 more respectively.

Medicare Cuts Are Real for Seniors: Republicans say their proposal is not a cut, since spending will be higher in 2002 than it is today. But, a 3 percent raise will not keep up with 5 percent inflation. Seniors simply will not be able to afford the same benefits they receive today. The out-of-pocket increases would effectively push at least 500,000 elderly into poverty by 2002.

Vouchers Aren't Choice, They're Financial Coercion: Beneficiaries who keep fee-for-service plans and even those who go into managed care will either pay more or have their benefits threatened. The Republicans' tight growth rates will diminish the value of the voucher and the type of coverage it can purchase. The GOP choice for seniors: choose to pay more or choose to get less.

For Jen Klein —

Gene asked me to give you a copy.
Reshma

MEMORANDUM

To: Gene Sperling
From: Reshma Jagsi
Re: Perot's *Intensive Care*
Date: August 8, 1995

In his new book, *Intensive Care*, Ross Perot discusses various problems of the Medicare and Medicaid programs and examines several potential solutions, including the idea of medical savings accounts. In this memorandum, I will summarize the ideas Perot presents with special attention to his chapter on medical savings accounts.

Perot draws an extended analogy between the two biggest government-funded health care programs and an outdated airplane. He warns that unless Medicare and Medicaid are reformed, the American people are in for a sudden and painful crash. Indeed, Perot notes that the sharp increases in the cost of these two programs are responsible for a large amount of the overall upward pressure on government spending and resulting budget deficits.

First, Perot considers the case of Medicare. He argues that the aging of the Baby Boom population, increases in life expectancies, and advances in medical technology will force Medicare costs to continue to rise unless the program is fundamentally overhauled (56). He then proceeds to discuss in more detail the solvency crisis of the Part A hospital trust fund (73-91) and the "skyrocketing spending of Medicare Part B" (101).

Next, he catalogues several possible reforms he believes are most commonly discussed to solve these problems. These solutions include:

- raising the Part B deductible
- adding the requirement of copayment to laboratory services, home health services, and skilled nursing facilities
- prohibiting Medigap plans from offering first-dollar coverage
- reducing the subsidy of Part B to all individuals
- means-testing Part B
- increasing eligibility age
- reducing administrative inefficiency by merging Parts A and B
- rewarding recipients who report fraud
- eliminating payments for the bad debts of Medicare recipients on their deductibles and copayments
- reducing or eliminating disproportionate share payments
- reducing direct and indirect education costs (Perot cautions that this might simply result in cost-shifting or might have adverse effects upon the quality of teaching--pg 119)

Yet Perot argues that beyond such short-term solutions, which take the Medicare system as is, we must turn to more fundamental, long-term changes. He states, "The most promising approach to

lasting reform is to introduce the element of choice for Medicare beneficiaries" (121).

Perot then devotes two chapters to the case of Medicaid. In his discussion of solutions to the rising costs of Medicaid, Perot mentions the concept of a voucher system briefly (149). He notes that a voucher system might drive down costs via competition but that large research and teaching hospitals, an integral part of our public health system and for whom Medicaid patients are a key client base, might suffer if Medicaid patients choose managed care plans instead of these public hospitals. He also discusses a shift to block grants or a shift to total federal control. Finally, he discusses the possibility of splitting Medicaid into two distinct programs, each run by a different level of government.

Perot concludes that "system-wide reforms" are necessary in addition to more specific reforms of the Medicare and Medicaid programs if a true long-term solution is to be found (119, 145). Thus, Perot considers two ideas--managed care and medical savings accounts. Perot withholds judgment about managed care, claiming that it is too early to tell if managed care truly controls costs while maintaining quality (165). Still, he argues that "the only way to find out is to give Medicare and Medicaid recipients the option to choose the type of plan they prefer.... Until it is put to the test, we will not know how managed care can help in reforming Medicare and Medicaid" (166).

Perot's response to the idea of medical savings accounts is very similar. He argues, "How medical savings accounts would work on a large-scale basis cannot be known until they are pilot-tested" (174). Yet his discussion of the concept is flawed.

The numbers Perot uses in his discussion of MSAs are not those the average worker would face: medical savings accounts do give workers the possibility of saving money, but they also usually require one to put oneself at slightly more risk. Even Goodman and Musgrave, the fathers of the theory, acknowledge this fact. Perot's optimistic numbers make medical savings accounts seem to be a situation in which everybody wins. In his scenario, even those who consume a great deal of care win because they can use the money in the MSA to pay for the deductible, whereas they themselves would have been responsible for the deductible under the traditional plan. In reality, however, the money in the MSA would not cover the entire cost of the higher deductible in most cases. The commonly cited cases of Golden Rule Insurance and Forbes, which Perot also cites, are almost certainly exceptions to the general rule that one can only reap the benefits of MSAs by accepting more risk. Herein lies the central problem of MSAs, for if high-risk individuals do not have the incentive to choose MSAs, adverse selection results and the entire insurance market collapses. Perot's unrealistic numbers lead him to ignore entirely the adverse selection problem.

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[001]

In conclusion, Perot's book offers a simple discussion of the problems of the two biggest publicly financed health care programs and a brief catalogue of potential solutions. (b)(6)

(b)(6)

MEMORANDUM

To: Gene Sperling
From: Reshma Jagsi R.J.
Re: Medical Savings Account--Theory
Date: July 25, 1995

The seminal work on free market reform of the health care system is John Goodman and Gerald Musgrave's *Patient Power*, published by the Cato Institute in 1992. In this memo, I will briefly summarize and critique the ideas presented in that book, which advocates changes in the tax system to encourage medical savings accounts.

Goodman and Musgrave begin their book by stating, "The thesis of this book is simple: If we want to solve the nation's health care crisis, we must apply the same common-sense principles to medical care that we apply to other goods and services" (vii). They argue that their "individualistic" prescription for reform is superior to the "bureaucratic" ideas of others and will empower patients to control the costs of their own care.

Goodman and Musgrave rely heavily upon the presumption that the fundamental problem of the current health care system stems from its reliance upon third-party payers (231). Therefore, they advocate reforms that give patients the incentive to compare prices and search for the lowest-cost option in the medical marketplace. They argue that health insurance is often inappropriate, serving as pre-payment for predictable utilization of medical services rather than as a true risk-management strategy (178-190). Thus, they advocate reforms of the tax system that would encourage individuals to buy insurance with high deductibles and place the money they retain because of lower premiums in medical savings accounts. Individuals would then draw from these medical savings accounts to pay for more routine medical care. Goodman and Musgrave argue that such reforms would not only provide effective cost-control on medical services but

that they would also allow individuals to continue coverage during unemployment, create incentives for better lifestyle choices, expand options for care, encourage savings for long-term care, and reduce administrative costs (249-251, 415-417, 451).

Goodman and Musgrave state, "Almost all arguments against empowering patients are variations on the notion that individuals are not smart enough or knowledgeable enough to make wise decisions" (ix). The primary intellectual flaw in their argument does indeed lie in the fact that the medical market is imperfect not only because of the perverse incentives engendered by a system of third party payers but also because of the tremendous asymmetry of information between provider and consumer. While patients, as consumers, may have more information about what services are actually rendered than third party payers, they have little information about the value of these services aside from what their physician-providers tell them. This asymmetry of information leads to monopoly power on the supply side. This counter-argument to Goodman and Musgrave's ideas is not meant to belittle the individual patient. It simply considers the fact that no individual patient can bear the extraordinary costs of discovering information in such a complex field.

Goodman and Musgrave themselves note how little information most consumers of medical care possess (28). They comment upon how easily hospitals can shift the costs of caring for uninsured patients because most patients cannot comprehend the complex medical bills they receive (52-53, 177). Yet they believe that if patients were given the incentive to limit their medical expenses, medical providers would find it in their own interest to provide more information. They argue, "If physicians were dealing primarily with patients spending their own money, they would have stronger incentives to communicate the risks and probable benefits of the patient's treatment" (298). On the contrary, if providers profit from increased utilization of services, they have the same economic incentive to overstate

benefit and underplay risk under free market reforms as they do under the current system. Market reforms cannot solve such problems, which can only be controlled in managed care situations and through professional ethical norms. Simply giving patients the incentive to save is not enough.

Thus, the idea that free market reforms restore power to the consumer is unfounded. In order for consumers to possess power in a monopolistic situation such as the one caused by the asymmetry of information in health care provision, they must join together to counter the monopoly power of providers with monopsony power.

Furthermore, free market reforms such as the medical savings account are problematic because they threaten the very concept of health insurance. Goodman and Musgrave themselves note that 4% of people account for 50% of spending and that 20% of people account for 80% of spending. Thus, they argue that medical savings accounts are a great idea--most people would save money. Yet those who save money do so at the expense of the sick. As healthy people self-select into high-deductible policies, sicker people will pay far higher premiums and the insurance system will collapse.

Also, market-oriented reforms are likely to discourage consumption of preventive care. Goodman and Musgrave offer a particularly surprising response to this objection. They argue that preventive medicine is not always necessary and "generally adds to the cost of health. It is an investment in future good health, not a cost-control device. Further, attitudes toward risk vary. . . . Yet, in the current health care system, the delivery of preventive medical services tends to be determined by bureaucratic reimbursement policies rather than patients' preferences" (88). They take a shocking attitude toward issues of public health, including child vaccination, and argue that those who "choose" to forego preventive care because of economic

constraints should be allowed to do so. Yet such choices can hardly be considered acts of free will in the philosophical sense, and they usually ultimately result in far higher costs to the health care system.

The decision to seek preventive care is one of several health behaviors upon which Goodman and Musgrave focus. They are correct in noting that personal behavior plays a large role in determining health status. Indeed, among the top ten causes of mortality and morbidity are alcohol, tobacco, and other drug use, risky sexual behavior, and unhealthy diet and exercise patterns. Goodman and Musgrave argue that many individuals make unhealthy choices that then cost the system as a whole money because they face the classic collective action problem: they do not personally bear a significant portion of the costs associated with their behavior. Thus, Goodman and Musgrave believe that free market reforms would give individuals the incentive to pursue healthy lifestyles by leaving the responsibility for medical costs of unhealthy lifestyles in the hands of the individual who chooses such behavior (93-94).

Unfortunately, Goodman and Musgrave misunderstand the reasons individuals "choose" risky health behaviors. Public health scholars have in recent years abandoned rationalistic models (especially the traditional Health Belief Model), which portray individuals engaged in rational cost-benefit analyses of health behaviors. Public health scholars now generally agree that such risky personal health behaviors are not the product of free individual choice but more the product of socio-economic status and other social factors. Thus, creating economic punishments for engaging in risky health behaviors will not cause the most vulnerable members of our society to avoid these behaviors. Rather, it will simply add an additional economic penalty upon those who can least afford it. Goodman and Musgrave's reforms would have a terrible effect upon those of lower socio-economic status and would force them to take responsibility for actions

that most public health experts agree are not free choices at all.

In sum, Goodman and Musgrave's ideas for reform, though initially attractive, would not truly help solve the crises of our health care system. The faulty assumptions underlying their analysis lead to a prescription for market-based reforms that would probably create more problems than they would solve.

MEMORANDUM

To: Gene Sperling
From: Reshma Jagsi RJ
Re: Medical Savings Accounts
Date: July 12, 1995

As per your request, I searched Lexis/Nexis for comments on Medical Savings Accounts (MSAs) made by Republican leaders during the past year. The following comments are grouped by speaker and organized roughly from most to least recent.

CONGRESSMAN GANSKE:

Ganske is distributing a paper to other members of Congress detailing the benefits of MSAs according to Health Line (7/19/95). Health Line reports that Ganske argues in that paper that MSAs "represent the only way to return responsibility for health care to individuals." The Associated Press adds that Ganske's experience as a plastic surgeon led him to believe that "when the consumer pays the bill, medical costs are controlled" (AP, 6/27/95).

CONGRESSMAN JACOBS:

The Democratic sponsor of the MSA bill argues that "[a] falling tide lowers all prices" in response to Pete Stark's contention that MSAs would trap those requiring more care in an "increasingly expensive traditional insurance plans" (qtd in Rocky Mountain News, 6/28/95).

CONGRESSMAN CHRISTENSON:

"[T]he main reason health care costs have skyrocketed in recent years is because there is little or no price-sensitivity in health care purchases. . . . [The third-party payer] system perpetuates the misconception that someone else is picking up the health care tab and, thus, the individual doesn't have to worry about the cost or need for care. . . . The Rand Corporation has confirmed this. In a study conducted in the early 1980s, researchers studied the health care decisions of over 2,000 families. What they discovered was that the lower the health insurance deductible, the greater the utilization with no discernible difference in health outcomes. When these findings are extrapolated, the Rand study shows that when people are spending their own money on health care they spend 30 percent less with no adverse effect on health. . . . Second, MSAs encourage savings by individuals. . . . Third, MSAs are completely portable. . . .

Before I close, I want to briefly touch on the tremendous potential MSAs hold in helping us save Medicare from financial ruin while at the same time giving our nation's seniors improved health care benefits and quality. . . . Under that proposal, seniors would be free to withdraw their share of Medicare spending each year to purchase private coverage of their choice, including an MSA option. . . . Like MSAs in the non-Medicare

setting, MSAs for Medicare recipients would create effective incentives for recipients to be cost- and quality-conscious in their health care decisions while at the same time providing seniors with greater choice of health care providers and services" (FDCH Congressional Testimony, 6/27/95).

GREG SCANDLEN
EXECUTIVE DIRECTOR OF THE COUNCIL FOR AFFORDABLE HEALTH INSURANCE:

"The biggest concern we hear is that Medical Savings Accounts may lead to adverse selection, meaning that only the young and healthy would want an MSA, leaving the sick and aged behind in HMOs and other managed care settings. This concern must be clearly addressed and understood because it is so misleading, and possibly self-serving.

There are a few things we know about selection. One of them is that high users of health care services avoid managed care whenever they can. . . . But that is just half the reason they would opt for an MSA. Under most traditional indemnity plans, including fee-for-service PPOs, the insured is responsible for paying a regular deductible and a substantial copayment, totalling thousands of dollars. In most MSA arrangements we have seen, the high user of services will actually have to pay less out of pocket than they do today, provided of course, that the tax advantages of the Archer/Jacobs bill are available. . . .

[MSAs] will save the federal government precious dollars in the long run by reducing health care costs without artificial controls, price caps, or a new and potentially costly bureaucracy. Our current health care system is not broken, but it has been badly harmed by overregulation, tax inequities, and incentives to spend money rather than save." (FDCH Congressional Testimony, 6/27/95).

CONGRESSMAN ARCHER:

"By giving patients incentives to purchase health care more carefully, medical savings accounts will reduce the pressures that cause costs to rise. Medical savings accounts also increase access to health care. If you have your own account, you won't lose your health care if you change jobs or lose your job. Finally, MSA's promote personal savings. . . . Last year the American people were denied meaningful health care reform because the Administration took an all-or-nothing big government approach that left them with nothing. Our incremental approach looks to be just what the doctor--and the American people--ordered" (141 Cong Rec E 1243; 6/14/95).

"Economists who come before the Ways and Means Committee--whether they are liberal, moderate, or conservative--nearly all agree on one thing: we badly need more savings. Medical savings accounts provide a savings-based answer to the health care dilemma" (Archer, qtd in Health Line, 6/14/95).

CONGRESSMAN THOMAS:

According to the Chicago Tribune, Bill Thomas estimated that

the MSA proposal would cost the Treasury $2 billion over five years (6/14/95).

SENATOR GRAMM:

According to the Washington Times, Gramm stated, "Medical savings accounts may not be the policy wonk's version of penicillin, but they are a powerful medicine within reach" in the New England Journal of Medicine last year. Gramm notes that "every penny spent on health care would be money that could be kept, saved or spent on something else" (Washington Times, 5/26/95).

SENATOR FRIST:

"A fundamental problem which characterizes every interaction between patient and health care provider is that the provider is not paid directly by the patient but by a third party. . . . Imagine if we were all required to pay out of pocket only 20 cents out of every dollar of food that we purchased, or transportation, or clothing. We would all buy more than we need. That is what happens in medicine every day" (141 Cong Rec S 1258; 1/20/95).

SENATOR ROTH:

"Under this legislation, you can go to any doctor, nurse, or other health care provider of your choice without worrying about whether or not your insurance is going to cover the bill. . . . [O]ne of the great things about this bill is that no Government bureaucrat will get in the way of you and your doctor. . . . No one to approve whether you spend the money on a second opinion or not, or get that extra test done [sic]. . . .

Two of the best provisions of this bill [S 2532, proposing to amend the Internal Revenue Code] are the ones that add flexibility for consumers to purchase insurance in the event that they lose their job, or if they want to buy long-term insurance. Under this bill, taxpayers will be able to use money in their medical savings account to make COBRA payments. . . . Second, many Americans know that if they are faced with a serious illness for a long period of time, they will need long-term care insurance. . . . Government cannot afford to pay the costs of this kind of benefit, but it can encourage it through the use of medical savings accounts, and the equal tax treatment I am advocating in this legislation. . . .

Beyond offering patients choice, medical savings accounts will help control health care costs. The reason why is simple: it will encourage consumers of medical care to shop wisely, reject unnecessary treatment, and conserve scarce medical resources because it is the consumer, not some third party, such as an insurance company or the Government, who will be paying the bills" (140 Cong Rec S 14529; 10/6/94). Roth goes on to cite similar reforms passed in several states as further evidence of the benefits of MSAs. Roth also made similar statements when he argued for MSAs as cost-containment measures during the discussion of the Health Security Act (140 Cong Rec S 11918; 8/17/94).

CONGRESSMAN GINGRICH:

Mr. Gingrich submitted into the record an article written by Christina Jeffrey and Lois Kubal that includes statements such as: "The realization is that the United States may not be perfect, but we are ahead of other industrialized nations in health care. . . . It is necessary for the free market to dictate the prices paid for medical care. . . . The best feature of this program might be its political downfall, the lack of government control! Without the government owning the plan, most Washington insiders will not support it" (Jeffrey and Kubal, qtd in 140 Cong Rec E 1858; 9/16/94).

CONGRESSMAN SAXTON:

"When we go to the doctors, if the doctor says, 'You need four tests,' we don't ask if two will do or if one will do. . . . If the doctor says, 'You need to go to the hospital for a procedure,' we don't have to ask, 'Can't we do this as an outpatient?' because 83 percent of the time, somebody else pays for it" (140 Cong Rec H 8670; 8/18/94).

SENATOR GRASSLEY:

"Farmers would benefit from MSAs, [sic] and have been pioneers in the use of the MSA concept by blending high deductible plans with personally funded tax deferral savings vehicles. MSAs are a proven 'concept,' the Mitchell Plan does not acknowledge their value in any way at all [sic]" (140 Cong Rec S 11918 at 11927; 8/17/94).

CONGRESSMAN ALLARD:

"Despite the current tax disadvantage of medical savings accounts, companies that offer their employees this alternative have seen much lower employee health costs than companies that do not offer this option. . . . Opponents of medical savings accounts do not think that individuals are capable of making their own health care decisions. The First Lady has said that under medical savings accounts, many people would save the money and fail to obtain necessary care 'unless they are required to be responsible.' A Member of this body has been quoted as saying that individuals think they are invincible when they are well, but are 'absolutely irrational, brain-dead, sniveling, begging and fantasizing ills and pains' when they are sick. According to these policymakers, then, our only remedy is to allow the Government to protect the American people from their own stupidity" (140 Cong Rec H 6745).

SENATOR HELMS:

"[A] lot of us are weary of hearing that the American people are not smart enough to spend their own money. These two examples [Forbes and Dominion] out of many prove that the employees are smart when given an opportunity, when given a choice" (140 Cong Rec S 9758 at 9761).

SENATOR SMITH:

"The medical savings account would do more to help contain

medical costs in our country than anything in the Clinton-Mitchell bill, anything at all, and would do so by relying on the market rather than Government bureaucracy. . . . With another party bearing responsibility for costs, individuals have no incentive to keep themselves from incurring expensive health care bills. That is what medical savings accounts are all about. . . . Responsibility. Is that not what America is all about, responsibility? . . . Exercise some responsibility. Set up a medical IRA account. And then lead a healthy lifestyle, and you will save money, big time" (140 Cong Rec S 11918 at 11935; 8/17/94).
*****Note--I recently wrote an academic paper on how Republicans might exploit the concept of personal responsibility to kill significant health care reform. Most of the leading causes of mortality and morbidity can be traced to personal behaviors such as smoking, drug and alcohol use, exercise and diet, and sexual activity. While current public health research indicates that risky health behaviors are more due to social and economic pressures than personal choice, I fear that Republicans may seize upon this idea to legitimate their opposition of broader reforms.

OTHERS

Others who complained in passing of the lack of an MSA provision in the Mitchell bill last year but made no detailed comments in the Congressional Record include Senators Hutchison, McCain, McConnell, Lott, Gorton, Craig, Coats, Gramm, and Dole.

SUMMARY

Common themes that run through these comments include:

--A belief that the market failures in health care stem from the incentive structure created by the third party payer system, not from informational asymmetries that create monopsony power on the provider side, and the resulting idea that individual consumers can drive down costs

--A belief that MSAs would lead to increased savings overall, rather than simply diverting savings from other accounts

--Emphasis upon the ability of those who have MSAs to choose their providers and services and a belief that more drastic reforms would be detrimental to the high standard of care that those currently insured receive

--Emphasis upon the portability of MSAs as an answer to job-lock and the problems of the uninsured unemployed

--A tendency to downplay problems of adverse selection, incompatibility with other cost-control measures such as managed care systems and group purchasing, consumers' lack of information, and the fact that most health care costs arise from a small minority of patients who need extensive treatment

--Inappropriate comparisons of health care to other market goods

NOTE: Unfortunately, interns are not officially allowed access to Lexis/Nexis, so I was only able to perform the research while Robert Gordon was away from his computer. While I did have enough time at the computer to search the Congressional Record from July 1994 forward, I was only able to search the news articles from May 1995 forward (61 articles). There are 90 more articles between July 1994 and May 1995 that I would be happy to research if you are able to find a Lexis/Nexis accessible computer for my use.

(2)

MEMORANDUM

To: Gene Sperling
From: Reshma Jagsi R.J.
Re: Medicare Vouchers
Date: July 18, 1995

My research to date on Republican proposals for market-oriented reforms of Medicare financing, including both the Medicheck/Choice Checks voucher proposal and the medical savings account option, has given me a fairly good grasp of the more general issues surrounding the debate over Medicare funding. Unfortunately, I suspect that most of what I have gleaned will be of little direct use to you. It will, however, allow me to work efficiently upon this issue in the coming days. In this memo, I will simply offer a brief outline of my general findings.

The upward pressure placed upon governmental budgets by Medicare and the long-term economic problems of the program, due to factors such as the aging of the baby boom generation and the more general increase in all health care costs, can only be solved in three ways. The first two solutions consider the game to be zero-sum: cut expenditures (reduce benefits, cut provider payments, or both) or increase revenues. The third solution involves the creation of a positive-sum situation, in which money is saved by eliminating waste and reaping the rewards of efficiency. Although Republicans claim that their market-oriented reforms are an example of the third sort of solution, clearly they are an example of the first. Only wholesale reform of the health care system such as that proposed by the President last year could truly create a positive-sum game. As Eugene Lehrmann of the AARP comments, "Singling out Medicare for spending reductions without implementing cost controls throughout the system is like putting a bucket under a hole in the ceiling each time it rains rather than repairing the roof" (FDCH Congressional Testimony, 5/17/95).

A shift to a voucher system will clearly reduce benefits to the elderly. Although Republicans try to mask the true effects of their proposals, even they must admit, as CBO Director June O'Neill did at a May 11th Finance Committee Meeting, that the reforms would force seniors to pay more to retain the same level of benefits. More specifically, when Senator Rockefeller asked, "[D]o you think that beneficiaries will be getting the same quality of health care services that they are today if you have a seven percent cap on Medicare?" O'Neill responded, "That is hard to say because, in part, people may still be for it, but they may still be obtaining similar quality. They may be paying more for it, but they certainly could be obtaining similar quality" (Congressional Press Releases, 5/23/95). Indeed, if Medicare's growth rate is capped below the rate of private insurance, which grows at a rate of approximately 7.1%, the Medicare voucher will soon be worth significantly less than the private insurance policy it is supposed to be able to buy (Health Line, 6/16/95).

Thus, making it clear to the public that a voucher system will cost beneficiaries more out-of-pocket or force them into highly restrictive HMOs is essential.

Furthermore, because medical costs are significantly higher at the end of life and because senior citizens are at higher risk for contracting a host of illnesses and conditions than younger people, private insurance companies may be unwilling to sell policies to older individuals in this age of redlining and bans on pre-existing conditions. As Martin Corry of the AARP notes, "There is a reason we have Medicare. The health insurance industry didn't then and doesn't now want to provide affordable health insurance coverage for most Americans" (Chicago Sun-Times. 6/4/95).

Finally, it is important to note that the underlying fallacy of market-oriented reforms is the belief that the market failures in health care stem from the incentive structure created by the third party payer system, not from informational asymmetries that create monopsony power on the provider side. Yet this is simply incorrect, as is the resulting idea that individual consumers can drive down costs. As the National Council on Aging puts it, "It is particularly dangerous and erroneous to assume that 36 million individual Medicare beneficiaries would be able to negotiate successfully a marketplace in which many insurance companies are offering up to seven different types of health plans. Proponents of vouchers seem to forget that most people rely on their employers to negotiate health plans on their behalf" (FDCH Congressional Testimony, 7/12/95). Moreover, I have found absolutely no evidence to support the contention that the high growth rates of Medicare expenditures is the result of runaway utilization by beneficiaries.

In conclusion, I must comment upon how much the current debate over Medicare resembles the debates during the early 1980s over the solvency of the Social Security program, a case which I have studied in detail in one of my classes. A professor of mine once remarked that the Republicans' repeated announcements of intentions to reduce Social Security benefits in the early 80s for budgetary reasons seemed to him much like a Looney Tunes cartoon. Like Daffy Duck, they kept hitting themselves on the head with the issue. I cannot help but remember this comment when considering Republican proposals to cut Medicare benefits through vouchers and other market-oriented reforms. If we can make the true results of these reforms clear to the public, it will certainly be a powerful political tool for both the Administration and the Democratic Party more generally.