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

16-Oct-1996 01:10pm

TO: Christopher C. Jennings
TO: Jennifer L. Klein
TO: Sarah A. Bianchi

FROM: Pauline M. Abernathy
National Economic Council

SUBJECT: medicare premiums

As you may know, the medicare premium for 1997 which will be announced sometime soon but is not yet public will be $43.80 -- just $1.30 more than this year. This is less than CBO projected last november ($48.20) and less than CBO projected under our plan in December ($45.50). It is also $11.10 less than CBo projected the GOP budget in December ($54.90), although I don't think we need to make this comparison since 1996 is solid and equally large.

To what extent do we deserve credit for the lower Part B costs and therefore the lower premium? Also, have you arranged for a heads up on the announcement timing already? Who determines the timing?

THE WHITE HOUSE

WASHINGTON

November 11, 1995

MEMORANDUM TO THE PRESIDENT

From: Gene Sperling, Chris Jennings, Nancy-Ann Min

Subject: Medicare 31.5% Part B Premium Proposal

CURRENT STATUS: In the Republican reconciliation plan, around $50 billion is raised over seven years through setting the Medicare premium at 31.5% of Part B program costs. The Republican leadership correctly understands that if this reconciliation proposal does not become law by mid-November, they will not be able to program the computers in time to implement this increase for January 1, 1996. The Republican leadership therefore fears that if they cannot pass this aspect of their reconciliation bill soon, a lower premium will be put in place for the beginning of 1996 and Republicans will face the politically difficult task of raising premiums by $11 a month in the middle of the year. The Clinton balanced budget plan calls for a 25% Part B premium contribution and we have opposed any attempt to allow the Republicans to pass their increase in reconciliation -- and certainly by throwing it in a continuing resolution.

SUMMARY: REPUBLICAN 31.5% PROPOSAL: The Republicans argue that their proposal to impose a 31.5% Part B premium contribution simply extends current policy, since the $46.10 that is in place for 1995 amounts to 31.5% of Part B program costs. Yet, the 31.5% would be a clear increase above current law -- and indeed far higher than any percentage since at least 1981. As discussed below, the fact that the *current Part B Premium amounts to 31.5% is a historical accident, and does not reflect the policy choice of any Congress to have Medicare Part B premiums at a 31.5% level.*

Indeed, the 1990 Congress set the $46.10 amount for 1995 because they *feared that soaring medical costs and manipulation of the health care baseline by a Republican OMB would lead the 25% contribution level to be too high.* As it turned out, this attempt to protect Medicare beneficiaries backfired. When health care cost grew less than projected in 1990, the $46.10 amount that was set into law caused recipients to pay more than 25% --- as the $46.10 monthly premium ended up amounting to 31.5% of program costs.

Yet, starting in January 1, 1996, the Part B premium under both current law and the Clinton balanced budget proposal reverts to 25%. Because the $46.10 monthly premium for 1995 accidentally amounted to a level higher than 25%, the reversion to 25% leads premiums for 1996 to actually drop for this one year from $46.10 to $42.50. As the Republican level would **change current law** by raising it to 31.5%, it would make premiums $53.50 -- $11 above current law per month, or $132 a year and $264 per couple.

BACKGROUND AND HISTORY ON PART B PREMIUM CONTRIBUTIONS: Over the last two decades, one of the primary policy goals for Democratic lawmakers has been to prevent Medicare premiums from increasing so much that they reduced the real, inflation-adjusted purchasing power of Social Security benefits. As you know, Social Security benefits have a cost-of-living- adjustment (COLA) to protect against inflation.
As Medicare premiums are deducted right out of the Social Security checks, if Medicare premiums rise more than the CPI, Medicare premium increases can have the effect of reducing the real value of Social Security benefits.

When Medicare first began, premiums were set as high as 50% of program costs. Yet, with high rates of medical inflation, premium increases grew too high and in 1972, Congress abandoned the 50% level, and instead linked premiums to the CPI. In 1981, President Reagan and Congress temporarily adjusted the underlying law to return to a specific percentage of Part B program costs -- only this time it was to a 25% level. Changing to a 25% contribution level did allow for increased revenues for reducing the deficit. Because of that, Administrations and Congresses have been able to contribute to deficit reduction simply by extending the 25% level -- since without such extenders it would revert back to being linked to the CPI, which raises less revenues for the general fund than a 25% contribution level. During the 1980s, Reagan or Congressional Republicans did try to raise the premium percentage to over 30% on several occasions, but each time it was defeated.

In 1990, however, when Democrats were constructing the 5-year budget deal with President Bush, they feared that Republican OMB officials might seek to raise premiums by manipulating the health care baseline. Therefore, Democratic lawmakers temporarily abandoned the 25% percentage level and decided it was safer to lock in specific dollar amounts for each of the five years in the 1990 agreement. For 1995, the amount selected was $46.10 and as mentioned above, this turned out to be higher than projected -- 31.5%. *Yet, it is crucial to note that "31.5%" was never legislated by any Congress, and that intent of the legislation was in reaction to fears that a 25% level would be too hard on beneficiaries.*

In 1993, when we were putting together OBRA 1993, the Democrats did not fear that the Clinton OMB would manipulate the baseline to raise Medicare premiums -- and as they had seen that using set amounts had not worked -- they returned to a 25% level for the years in our plan that went beyond the 1990 agreement. Therefore, there were set dollar amount from 1991-1995, and a return to the 25% ratio for the remaining three years of OBRA 1993 -- 1996, 1997 and 1998. After that -- unless there are extenders -- the law returns to linking Part B premiums to increases in the CPI.

What the Clinton balanced budget plan does is extend this 25% for the entire period of the balanced budget plan. Even though we are extending the traditional 25% premium policy, this "extender" actually gives us some Part B savings after 1998 because without our 25% provision, the law would revert back to only increasing premiums by the CPI in 1999.

In sum, despite the Republicans efforts to suggest that having a 31.5% premium contribution is not raising premiums -- it just isn't so. The fact that the premium for 1995 amounted to 31.5% was an accident. Indeed, while there may have been times in the 1970s where set premium amounts were higher than 25%, the Republican proposal would be legislating the *highest set percentage for Medicare premiums since 1972* and would affect all seniors regardless of incomes.

cc: Leon Panetta
Erskine Bowles
Alice Rivlin
Laura Tyson
Carol Rasco
George Stephanopoulos
Pat Griffin
Jen Klein

Date: 10/05/95 Time: 08:34

House GOP and Clinton Medicare Plans Closer Than Thought

WASHINGTON (AP) New estimates from the Congressional Budget Office conclude the House Republican's Medicare plan would cost seniors only $4 more a month in premiums than a plan offered by President Clinton not the $7 projected earlier.

An analysis released Wednesday indicated the Medicare premium under the Republican plan would be $87 a month in 2002.

The Ways and Means and Commerce committees released the analysis. The CBO also indicated that the House Republican plan would increase the monthly premium from the current $46.10 to $54 in January 1996 $10 higher than it would be under President Clinton's proposal.

The White House disputed the Republicans' figures and claimed the gap in monthly premiums in 2002 would be $18, not $4.

The Senate Republicans' Medicare plan carries an estimated premium of $92 in 2002. The House and Senate bills differ in some respects.

Republicans want Medicare's elderly and disabled beneficiaries to keep paying 31.5 percent of the costs of Medicare Part B coverage for doctor bills and outpatient expenses rather than let it drop to 25 percent as currently planned and backed by Clinton. The balance whether 68.5 percent under the GOP plan or 75 percent under the Democratic plan comes out of general tax revenues.

Beneficiaries paid 50 percent when Medicare was instituted in 1965, with the other half coming out of the Treasury. Over the years, Congress has reduced the share of premiums paid by beneficiaries to partially shield them from the effects medical inflation.

All of the monthly premium figures being debated now are estimates, since the actual Part B premium each year is determined by the actual cost of the program divided by the number of participants. Part B of Medicare is voluntary, but practically of all those eligible participate and have the premium deducted from their Social Security checks.

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Date: 10/04/95 Time: 22:17

Congressional Budget Office Says Medicare Numbers Close

(Capitol Hill) -- The premium gap may not be that wide when it comes to Medicare reform.

The Congressional Budget Office has compared proposals contained in President Clinton's budget to proposals from House Republicans. The findings indicate that the G-O-P plan would require recipients to pay just over four dollars a month more in 2002 than the White House proposes.

The study, based upon monthly premiums for the year 2002, was released by the House Ways and Means and Commerce committees.

The White House disputes the Republicans' figures. It says the gap in monthly premiums in 2002 would be 18 dollars, not four.

APNP-10-04-95 2228EDT

Facts On The Republican Medicare Premium Increase

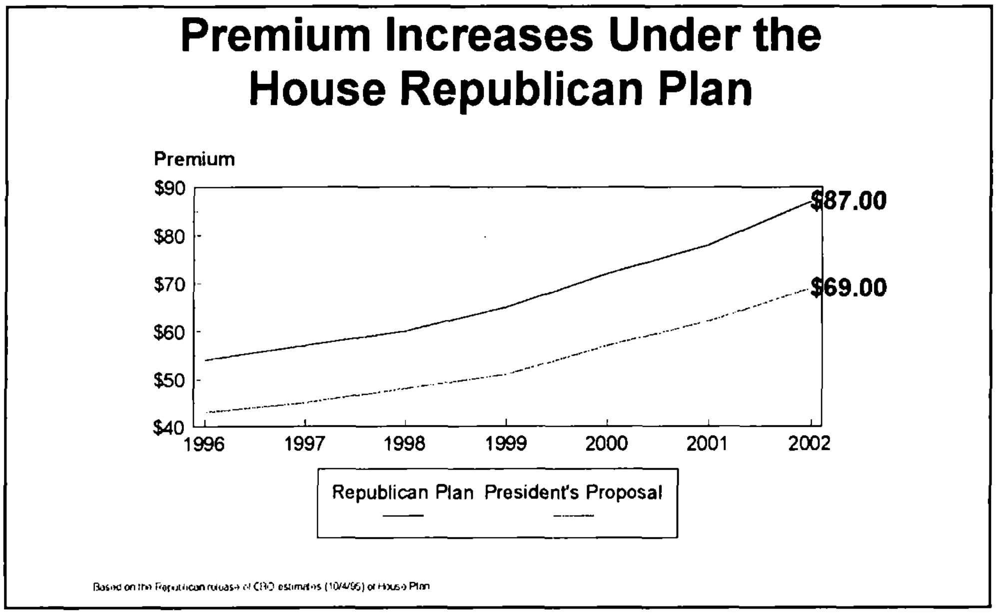
October 5, 1995

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

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

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

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



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

- <u>Increased Out-of-Pocket Costs.</u> The GOP plan will increase out-of-pocket costs for all seniors -- regardless of their income or health.

- <u>Increased Premiums and Deductibles.</u> Both the House and Senate plans increase premiums, and the Senate plan also cuts benefits and doubles deductibles from $100 a year today to $210 a year in 2002.

- <u>Reduced Spending.</u> Medicare benefits per beneficiary will be cut $1,700 in 2002, forcing spending to grow about 30 percent slower than in the private sector.

- <u>Taking Money From Seniors To Pay For Tax Cuts.</u> Not one penny of the increased premiums will go to the Medicare trust fund. Instead, seniors will pay more out-of-their-pockets to fund a huge tax cut for the wealthy.

- <u>Raising the Eligibility Age.</u> The Senate plan would gradually delay the Medicare eligibility age from 65 to 67 beginning in 2003. Tens of millions of Americans would have to work longer and pay more taxes to get fewer years of Medicare.

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