Laura D'Andrea Tyson
Assistant to the President for Economic Policy

Both the President and Republicans in Congress have been accused of exaggerating the remaining policy differences on Medicare and Medicaid in the budget talks. Unfortunately, the disagreements are quite real and significant. The President has put forward a proposal to restructure these programs while maintaining their basic guarantee of high quality health care. The Republicans continue to insist on changes that we believe will seriously weaken Medicare and Medicaid and will put at risk the health of the over 60 million Americans who rely on these programs.

Medicare. There are significant differences between the President's and the Republican proposals for structural reforms in Medicare. The Medicare program follows basic insurance principles: there is a single risk pool for all beneficiaries. The President's reforms offer beneficiaries more choices -- including provider sponsored networks and preferred provider plans -- while making certain that all new plans compete on quality and cost, not by avoiding sicker people who are poor insurance risks. The Republican reforms fragment the current broad risk pool into smaller groups of similar risk individuals by encouraging healthier, wealthier beneficiaries to join new plans and leaving the traditional Medicare program with older, sicker and more costly beneficiaries. Several features of the Republican proposal have this effect.

Medical Savings Accounts. The Republican proposal includes an idea that is largely untried on so large a scale -- medical savings accounts with very high deductibles -- as an alternative to traditional Medicare. These accounts will attract relatively healthy beneficiaries who do not anticipate spending much on health care and who can afford to pay for their health expenses. This will leave beneficiaries who have greater health needs in the traditional Medicare program, and according to the Congressional Budget Office (CBO), actually increase costs by more than $4 billion over seven years.

Balance Billing. The Republican proposal also allows doctors who sign up with some new plans to charge higher rates for their services than Medicare currently allows. Doctors will have an obvious incentive to join these new plans. Poorer and sicker beneficiaries who cannot afford these higher fees will be left in the traditional program. The result will be either higher costs or reduced access to quality services in this program.

Medigap. The Republican proposal leaves the current rules for Medigap -- the Medicare supplementary insurance program offered by private insurers -- unchanged. These Medigap rules allow insurers to discriminate on the basis of age and health status, and leaving them in place will only intensify the risk-segmentation tendencies inherent in the Republican proposal. In addition, contrary to Republican claims, beneficiaries who chose medical savings accounts and other private plan options may find themselves locked into these options because, if their health needs change, they will be unable to purchase Medigap insurance and switch back into the traditional Medicare program.

Each of these features of the Republican proposal will weaken Medicare's structure. Taken together, they provide a powerful set of incentives for healthier and higher income beneficiaries to opt out of traditional Medicare, driving up costs. If the effect of these changes were only to increase costs in the traditional Medicare program, however, it would be bad enough. What the Republican plan does is far worse.

It also caps spending in the Medicare program -- a cap that does not vary in response to unexpected circumstances. If Medicare costs rise faster than expected for any reason, the Republican cap -- or as they call it, the "fail-safe mechanism" -- means that the burden will fall, not on the federal government, but on payments to doctors and hospitals and ultimately on the quality and availability of services for beneficiaries.

As a result of the cap, the actual gap between Medicare spending under the President's plan and the Republican proposal could turn out to be much larger than the $44 billion difference ($124 versus $168) in anticipated savings over seven years. For example, if inflation rose 1% faster than expected over the next five years, the CBO estimates that Medicare spending would increase by over $35 billion.

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Under a block grant, even those states that try to maintain Medicaid benefits at current levels will find their ability to do so circumscribed by economic downturns, demographic changes and other circumstances beyond their control. During recessions, for example, states will find more working people eligible for Medicaid just as state fiscal resources become tighter. Under the Republican plan, federal payments will not rise as enrollment grows, leaving the states to bear the full burden of these additional costs or to cut services to avoid them. In contrast, the President's Medicaid proposal contains the growth of federal Medicaid spending but allows for automatic increases in spending if the population eligible for Medicaid grows.

Because the Republican block grant approach allows states to cut their own Medicaid spending levels, the total reduction in Medicaid spending throughout the nation is likely to far

exceed the $85 billion reduction in federal spending in the Republican proposal -- by some estimates, reaching as high as $290 billion over seven years. As a result, between three and six million Americans could lose coverage under their plan.

The President has shown that we can balance the budget -- in seven years and as certified by the Congressional Budget Office -- and control costs in Medicare and Medicaid while protecting the high quality health care that these programs guarantee today. The Republicans want to balance the budget, but they also want to make changes to Medicare and Medicaid that are not necessary and that will endanger the health of tens of millions of American families.

WORD COUNT: 1069

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Under a block grant world, even those states that try to maintain Medicaid benefits at current levels will find their ability to do so circumscribed by economic downturns, demographic changes and other circumstances beyond their control. During recessions, for example, states will find more working people eligible for Medicaid just as state fiscal resources become tighter. A block grant prevents federal payments to support state Medicaid

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Because the Republican block grant approach allows states to cut their own Medicaid spending levels, the total reduction in Medicaid spending throughout the nation is likely to far exceed the $85 billion reduction in federal spending in the Republican proposal -- by some estimates, reaching as high as $290 billion over seven years. As a result, an estimated three to six million Americans could lose coverage under the Republican Medicaid plan.

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Laura-

1/30/96

Here are some comments on your op-ed piece. I hope they are of some use.

Mark

RESPONSE TO ROBERT SAMUELSON

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In his January 17 op ed, Robert Samuelson accuses both the President and the Congressional Republicans of exaggerating the remaining policy differences on Medicare and Medicaid in the budget talks. Unfortunately, ~~the disagreements are quite~~ these policy differences are both real and significant real. The President has put forward a proposal to restructure these programs while maintaining their basic guarantee of high quality health care. The Republicans continue to insist on changes that we believe will fundamentally erode Medicare and Medicaid with adverse consequences for ~~the health of the~~ all. over 60 million Americans who rely on these programs. For Congressional with important consequences for the American public.

Medicare. There are significant differences between the President's and the Republican's proposals for structural reforms in Medicare. The Medicare program follows basic insurance principles: there is ~~one pool~~ a single broad risk pool, with shared risk across the entire elderly population. The President's proposed reforms offer beneficiaries more choices -- including provider sponsored networks and preferred provider plans -- while making certain that all new plans compete on quality and cost, not by avoiding sicker people who are poor insurance risks. The Republican reforms would Fragment the current broad ~~violate the basic risk-pooling assumptions behind insurance~~ into smaller groups of similar-risk individuals by encouraging healthier, wealthier beneficiaries to join new plans, leaving (e) This would the traditional Medicare program with older, sicker and more costly beneficiaries. Several features of the Congressional Republican proposals have this effect.

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we shouldn't call this a "reform" if we don't have to

Ending Premium Subsidies for Higher Income Americans. At first glance, the Republican proposal to end subsidies completely for Medicare Part B premiums for beneficiaries with higher incomes appear to be good policy. However, taking away any incentive for wealthier -- and usually healthier -- older Americans to participate in Medicare Part B, also has the effect of segmenting the Medicare population, driving up the costs of those who remain in the program.

Each of these policies will weaken Medicare's structure. And taken together, they provide a powerful set of incentives for healthier and higher income beneficiaries to opt out of traditional Medicare, driving up costs -- or driving down quality -- for those who remain.

Nor do the Republican proposals stop there. They also establish arbitrary caps on spending in the Medicare program -- caps that do not vary in response to unexpected circumstances. If Medicare costs rise faster than expected for any reason, the Republican cap -- or as they call it, the "fail-safe mechanism" -- means that the burden of adjustment will fall, not on the federal government, but on payments to doctors and hospitals and ultimately on the quality and availability of services for beneficiaries.

As a result of the cap, the actual gap between Medicare spending under the President's plan and the Republican proposal could turn out to be much larger than the $44 billion difference ($124 versus $168) in anticipated savings over seven years. For example, if inflation turned out to be 1% faster than expected over the next five years, the CBO estimates that Medicare spending would increase by over $35 billion.

This is a very strong argument that works if high income people paid 100% of the Part B cost; however, it's less compelling for most folks affected by the high-income premiums; since not too many people will pay 100% of the cost and many of these won't drop Part B coverage, the argument about changing the characteristics of the Part B risk pool is probably oversold

Under the Republican cap, the unanticipated inflation would mean an additional $35 billion in savings from providers and a cutback in the services they would be willing to provide to their patients. As this example indicates, setting invariant spending caps in Medicare magnifies the risks to the traditional Medicare program inherent in the structural ~~reforms~~ changes proposed by the Republicans.

Medicaid. The policy differences between the Administration and the Republicans are even greater and the consequences even more severe for Medicaid -- the program that guarantees vital health services to poor children, pregnant women, people with disabilities and older Americans. Although Samuelson is correct to point out that both plans give states significant new flexibility to manage efficient Medicaid programs, he neglects a fundamental difference between the Republican's (Congress') plan and the President's proposal: the President maintains the federal guarantee of meaningful coverage to the diverse populations eligible for Medicaid while the Republicans replace this guarantee with a deeply underfunded block grant. In other words, the Republican proposal eliminates the essence of the Medicaid program -- the right of eligible populations to a set of comprehensive benefits regardless of where they live throughout the nation.

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As a result, an estimated three and six million Americans could lose Medicaid coverage under the Republican Medicaid plan. Samuelson suggests that if the Republican plan "forced severe cutbacks in coverage", Congress could fix it later. But there is no guarantee that this would happen and, in the meantime, the health of millions of our most vulnerable citizens would be jeopardized in irreversible ways. How many disabled children would go without wheelchairs and how many elderly Americans without nursing home care until Congress acted to fix the problem it had created?

this seems too strong and out of character with the rest of the piece

The President has shown that we can balance the budget -- in seven years and as certified by the Congressional Budget Office -- while restructuring and protecting Medicare

and Medicaid. The Republicans want to balance the budget, but they also want to make changes to Medicare and Medicaid that are not necessary and that will endanger the health of millions of American families. As the President's plan demonstrates, we can control costs in these programs while maintaining high quality health care for all Americans.

THE WASHINGTON POST
TUESDAY, JANUARY 30, 1996

Robert J. Samuelson

Compromise Is No Sin

It's time for congressional Republicans to make a deal on the budget. It wouldn't be the deal they wanted, and it wouldn't be the deal that the country ultimately needs. But it would be a start, and it ought to be acceptable to the president—or, if it isn't, one that is so reasonable that it exposes Clinton's balanced-budget rhetoric as hollow. Compromise is not a sin, as some Republicans think, and what are the alternatives?

Well, Congress could continue to feud with Clinton over government shutdowns and the federal debt limit. The Republicans have tried this, and it failed. The public is bored by all these messy political maneuvers, and most Americans rightly view shutting the government and defaulting on the debt as wrong. If the Republicans are tired of fighting, they might throw up their hands and declare that the budget dispute will have to be settled by the voters in November. This, too, is a bad idea.

It would waste most of the past year's debate without necessarily increasing popular pressure to balance the budget. Campaign rhetoric could well harden positions on both sides. Democrats would accuse Republicans of starving the old, while Republicans would flail at Democrats for coddling welfare cheats. Will either party win the decisive victory needed to take charge of the budget? It's doubtful.

A budget stalemate might also be defended if it involved huge philosophical differences. It doesn't. All the budget plans—from the Republicans; the White House and various bipartisan groups—are remarkably close in proposed spending. Different policy approaches could be compromised. Examine one possible agreement. (All savings cover the seven-year period between 1996 and 2002, when federal spending is projected to total $12.8 trillion; figures come from the Committee for a Responsible Federal Budget.) It shows how small most differences are:

- **Medicare (health insurance for the elderly):** The compromise would move toward the Republicans' seven-year savings of $168 billion compared with the White House's figure of $124 billion. It would also embrace the Republicans' plan to expand "managed care" for Medicare recipients. But the Republicans would drop Medical Savings Accounts or limit them to demonstration projects.
- **Medicaid (health insurance for the poor):** The Republicans would drop their plan to convert it into block grants for states—fixed amounts that each state would receive annually. (Now, Medicaid involves an open-ended reimbursement of spending.) But other changes would bring savings closer to the Republicans' target ($85 billion) than the White House's ($59 billion).
- **Welfare Reform:** Clinton says that he and Congress are near agreement to give states more power to set eligibility standards and benefit levels for recipients. Budget savings are also close—$60 billion for the Republicans against $43 billion for Clinton. A compromise would move toward Clinton's figure.
- **Tax Cuts:** The Republicans' tax cuts are now estimated to cost $177 billion over seven years. That amount should be sliced in half. One solution is to limit the tax cut to a child tax credit, whose amount would be shaved from $500 to $300 per child. The cost in lost revenues would then drop to about $86 billion.

A compromise like this would aim to command a big majority in Congress. Almost no one would like every part of it. For example, I don't think tax cuts are justified until there's a budget surplus. Nor would this budget ensure a balance by 2002. Indeed, no plan offered by Congress or Clinton would. All require Congress to make deep, future cuts in discretionary spending. (Discretionary spending covers everything from defense to parks. Entitlement spending, such as Social Security, occurs automatically because people qualify for benefits.)

In this sense, any agreement now is a down payment on a balanced budget. But balancing the budget isn't—and never could be—a one-time affair. The real issue is whether Congress commits itself to reach balance and adopts a framework to do so. Without an overall budget agreement, none of this would happen, and the whole process would be delayed at least a year and maybe longer. Moreover, any agreement ought to contain strict future spending limits that would make Congress "discuss choices and vote," as Susan Tanaka of the Committee for a Responsible Federal Budget puts it. But the choices would still be hard.

Consider, for example, the additional spending cuts required to reach balance by 2002. Domestic programs on everything from health research to school aid might have to be cut 20 to 25 percent in inflation-adjusted terms. And other issues also loom. Should Social Security and Medicare be changed to prepare for the retirement of the baby-boom generation in the 21st century? Should Medicaid be overhauled before it bankrupts states, which pay about 40 percent of the costs? The great vice of deficit spending is that it allows politicians to evade such questions.

Adhering to a balanced budget is a form of discipline. It forces politicians to weigh the gains from government against the pain of paying taxes. The benefit of doing this is that people who are compelled to make choices are generally more careful than those who aren't. The laxness of constant deficits has induced a casual and, to some extent, ineffective use of government. The restoration of discipline—and not any immediate economic benefit—is the main reason for balancing the budget, though if large deficits persist for too long, they surely risk adverse economic consequences.

A lot of Republicans are now confusing petulance with principle. As children mature, they learn to cope without getting everything they want. The same ought to be true of politicians. Being principled does not mean being rigid. This year's budget debate will have failed if it doesn't foster a political climate in which critical choices can be discussed and constructive, if imperfect, changes made. If self-righteous Republicans prevent that, they will rightly be blamed for the resulting paralysis.

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In his January 17 op ed, Robert Samuelson accuses both the President and the Republicans of exaggerating the policy differences that remain on Medicare and Medicaid in the budget talks. Unfortunately, the disagreements are quite real. The President has put forward a proposal to restructure these programs while maintaining their basic guarantee. The Republicans continue to insist on changes that we believe will fundamentally erode Medicare and Medicaid and have serious consequences for the health of the over 60 million Americans who rely on these programs.

Medicare. On Medicare, there are significant structural differences between the President's and the Republican's proposals. Medicare follows basic insurance principles: there is one pool, with shared risk. The President offers beneficiaries more choices -- including provider sponsored networks and preferred provider plans -- while making certain that all new plans compete on quality and cost, not by avoiding sicker people who are poor insurance risks. The Republicans abandon the basic economic assumptions behind insurance by pulling healthier, wealthier beneficiaries into new plans and leaving the traditional Medicare program with older, sicker and more costly beneficiaries. How do they do this?

Medical Savings Accounts. The Republican proposal offers medical savings accounts with very high deductibles that will attract beneficiaries who do not anticipate spending too much on health care and who can afford to pay out of pocket for the majority of their health expenses. This will leave beneficiaries who have greater health needs in the traditional Medicare program, and according to the Congressional Budget Office, actually increase costs for Medicare by more than $4 billion over seven years.

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Medigap. Republicans do nothing to change the rules for Medicare supplementary insurance, or Medigap, which need changing. These rules magnify the structural flaws in their plan. Republicans allow insurers providing Medigap in the traditional program to continue to discriminate on the basis of age and health status. Moreover, once healthy beneficiaries are enticed into medical savings accounts and other private plans, they will find it difficult to switch back to the traditional program if their health needs change.

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beneficiaries with higher incomes may seem to be good policy. However, by taking away any incentive for wealthier -- and usually healthier -- older Americans to participate in Medicare Part B, it will again have the effect of dividing the program.

Each of these policies will weaken Medicare's structure. Higher cost beneficiaries will be left in the traditional program, and Medicare costs will rise. If the effect of these changes were only to drive up costs in the traditional Medicare program, it would be bad enough. What the Republican plan does, however, is far worse.

It arbitrarily caps spending at an amount set in statute -- no matter what happens in the economy. If Medicare costs go up for an unforeseen reason, the Republican cap -- or fail-safe mechanism -- ensures that the Federal government bears none of these unexpected costs. Instead, every dollar of spending above the cap means a dollar extra in Medicare cuts in payments to doctors and hospitals.

So while the difference between the President's and the Republican's Medicare cuts seems to be $44 billion over seven years, the actual gap could be much greater. If, for example, inflation were 1% higher than anticipated over the next five years, the Congressional Budget Office estimates that Medicare spending would increase by over $35 billion. Providers would be left to treat the highest cost beneficiaries while getting paid less and less, forcing some to stop seeing Medicare patients. Medicare, in the Speaker's words, would surely "wither on the vine."

Medicaid. On Medicaid -- the program that guarantees vital health services to poor children, pregnant women, people with disabilities and older Americans -- the policy differences are even greater and the consequences even more severe. While Samuelson is right to point out that both plans give states significant new flexibility to manage efficient Medicaid programs, he neglects the fundamental difference between the Republican's plan and the President's proposal. The President maintains the guarantee of meaningful coverage. The Republicans end it and replace it with a deeply underfunded block grant.

Under a block grant, States will be vulnerable to economic downturns, demographic changes and other circumstances beyond their control. During recessions, for example, more working people turn to Medicaid just as fiscal pressures on states increase. Without federal payments that rise as enrollment grows -- as they would under the President's plan -- states will bear the full burden of these additional costs. Because states will be allowed to cut spending as well, the total cuts in Medicaid will go far beyond the $85 billion in federal savings and could reach $285 billion over seven years.

Between three and six million Americans could lose Medicaid coverage under the Republican Medicaid plan. Samuelson suggests that if the Republican plan "forced severe cutbacks in coverage", Congress could fix it later. There is no evidence that Congress would have the funding or political will to do that, and even if it did, I wonder how many disabled children would go without wheelchairs and how many elderly Americans without nursing home care in the meantime.

On day 1 Harvey
Is the antithesis

RESPONSE TO ROBERT SAMUELSON

Laura D'Andrea Tyson
Assistant to the President for Economic Policy

In his January 17 op ed, Robert Samuelson accuses both the President and the Republicans of exaggerating the remaining policy differences on Medicare and Medicaid in the budget talks. Unfortunately, the disagreements are quite real. The President has put forward a proposal to restructure these programs while maintaining their basic guarantee of high-quality health care. The Republicans continue to insist on changes that we believe will seriously weaken Medicare and Medicaid with adverse consequences for the health of the over 60 million Americans who rely on these programs.

Medicare. There are significant differences between the President's and the Republicans' proposals for structural reforms in Medicare. Medicare follows basic insurance principles: there is one pool, with shared risk across the elderly population. The President's reforms offer beneficiaries more choices -- including provider sponsored networks and preferred provider plans -- while making certain that all new plans compete on quality and cost, not by avoiding sicker people who are poor insurance risks. The Republican reforms violate the basic risk-pooling assumptions behind insurance by encouraging healthier, wealthier beneficiaries to join new plans, leaving the traditional Medicare program with older, sicker and more costly beneficiaries. Several features of the Republican proposals have this effect.

Medical Savings Accounts. The Republican proposal offers medical savings accounts with very high deductibles as an alternative to traditional Medicare. These accounts will attract relatively healthy beneficiaries who do not anticipate spending much on their health care and who can afford to pay out of pocket for the majority of their health expenses. This will leave beneficiaries who have greater health needs in the traditional Medicare program, thereby increasing its costs by more than $4 billion over seven years, according to the Congressional Budget Office (CBO). ~~The most that~~ Surely this is not what the Republicans have in mind when they talk about the need for "real" entitlement reform to reduce Medicare spending.

Balance Billing. The Republican proposal also allows doctors who sign up with some new plans ~~in the new program~~ to charge higher rates than currently allowed. Doctors will have an incentive to ~~leave the traditional Medicare program for~~ these new plans, ~~where they can charge higher fees~~. Poorer and sicker beneficiaries ~~may not be able to join these new plans~~, leaving the traditional program ~~with a larger share of the most costly beneficiaries~~.

Medigap. The Republican proposal leaves the current rules for Medigap -- the Medicare supplementary insurance program offered by private insurers -- unchanged. These rules allow insurers to discriminate on the basis of age and health status in the Medigap program. Such practices will only serve to intensify the risk-segmentation tendencies inherent in the structural reforms of the Republican proposal. Moreover, such practices mean that, contrary to Republican claims, beneficiaries who chose medical savings accounts and other private plan options may find themselves unable to purchase Medigap insurance ~~and~~ switch back into the traditional Medicare program if their health needs change.

Ending Premium Subsidies for Higher Income Americans. At first glance, the Republican proposal to end subsidies completely for Medicare Part B premiums for beneficiaries with higher incomes appear to be ~~good~~ policy. However, taking away any incentive for wealthier -- and usually healthier -- older Americans to participate in Medicare Part B also has the effect of segmenting the Medicare population, driving up the costs of those who remain in the program.

Each of these ~~policies~~ will weaken Medicare's structure. And taken together, they provide a powerful set of incentives for healthier and higher income beneficiaries to opt out of traditional Medicare, driving up costs -- or driving down quality -- for those who remain.

Nor do the Republican proposals stop there. They also establish ~~arbitrary caps~~ on spending in the Medicare program -- caps that do not vary in response to unexpected circumstances. If Medicare costs rise faster than expected for any reason, the Republican cap -- or as they call it, the "fail-safe mechanism" -- means that the burden of adjustment will fall, not on the federal government, but on payments to doctors and hospitals and ultimately on the quality and availability of services for beneficiaries.

As a result of the cap, the actual gap between Medicare spending under the President's plan and the Republican proposal could turn out to be much larger than the $44 billion difference ($124 versus $168) in anticipated savings over seven years. For example, if inflation ~~turned out to be~~ 1% faster than expected over the next five years, the CBO estimates that Medicare spending would increase by over $35 billion.

Under the Republican cap, the unanticipated inflation would mean an additional $35 billion in savings from providers and a cutback in the services they would be willing to provide to their patients. As this example indicates, setting invariant spending caps in Medicare magnifies the risks to the traditional Medicare program inherent in the structural reforms proposed by the Republicans.

Medicaid. The policy differences between the Administration and the Republicans are even greater and the consequences even more severe for Medicaid -- the program that guarantees vital health services to poor children, pregnant women, people with disabilities and older Americans. Although Samuelson is correct to point out that both plans give states significant new flexibility to manage efficient Medicaid programs, he neglects a fundamental difference between the Republican's plan and the President's proposal: the President maintains the federal guarantee of meaningful coverage to the diverse populations eligible for Medicaid while the Republicans replace this guarantee with a deeply underfunded block grant. In other words, the Republican proposal eliminates the essence of the Medicaid program -- the right of eligible populations to a set of comprehensive benefits regardless of where they live throughout the nation.

Even those states that try to maintain Medicaid benefits at current levels will find their ability to do so circumscribed by economic downturns, demographic changes and other circumstances beyond their control in a block grant world. During recessions, for example, states will find more working people eligible for Medicaid just as state fiscal resources become tighter. A block grant prevents federal payments to support state Medicaid spending

from rising automatically as enrollment grows, leaving the states to bear the full burden of these additional costs or to cut services to avoid them.

In contrast, the President's Medicaid proposal establishes a cap on the growth of federal Medicaid spending per capita. This approach contains the growth of federal Medicaid spending on a per capita basis but allows for automatic increases in spending if the population eligible for Medicaid grows for underlying economic or demographic reasons.

Because the Republican block grant approach allows states to cut their own Medicaid spending levels, the total reduction in Medicaid spending throughout the nation is likely to far exceed the $85 billion reduction in federal spending in the Republican proposal -- by some estimates, reaching as high as $285 billion over seven years.

As a result, an estimated three to six million Americans could lose Medicaid coverage under the Republican Medicaid plan. Samuelson suggests that if the Republican plan "forced severe cutbacks in coverage", Congress could fix it later. But there is no guarantee that this would happen and, in the meantime, the health of millions of our most vulnerable citizens would be jeopardized in irreversible ways. How many disabled children would go without wheelchairs and how many elderly Americans without nursing home care until Congress acted to fix the problem it had created?

The President has shown that we can balance the budget -- in seven years and as certified by the Congressional Budget Office -- while restructuring and protecting Medicare

and Medicaid. The Republicans want to balance the budget, but they also want to make changes to Medicare and Medicaid that are not necessary and that will endanger the health of millions of American families. As the President's plan demonstrates, we can control costs in these programs while maintaining high quality health care for all Americans.

RESPONSE TO ROBERT SAMUELSON

Laura D'Andrea Tyson
Assistant to the President for Economic Policy

In his January 17 op ed, Robert Samuelson accuses both the President and the Republicans of exaggerating the policy differences that remain on Medicare and Medicaid in the budget talks. Unfortunately, the disagreements are quite real. The President has put forward a proposal to restructure these programs while maintaining their basic guarantees. The Republicans continue to insist on changes that we believe will fundamentally erode Medicare and Medicaid and have serious consequences for the health of the over 60 million Americans who rely on these programs.

On Medicare, there are significant structural differences between the President's and the Republican's proposals. Medicare follows basic insurance principles: there is one pool, with shared risk and little chance for self-selection. The President offers beneficiaries more choices, while making certain that all new plans compete on quality and cost, not by avoiding sicker people who are poor insurance risks. The Republicans abandon the basic economic assumptions behind insurance by pulling healthier, wealthier beneficiaries into new plans and leaving the traditional Medicare program with older, sicker and more costly beneficiaries. How do they do this?

Medical Savings Accounts. The Republican proposal offers medical savings accounts with very high deductibles that will attract beneficiaries who do not anticipate spending too much on health care and who can afford to pay out of pocket for the majority of their health expenses. This will leave beneficiaries with greater health needs in the traditional Medicare program, and according to the Congressional Budget Office, actually increase costs for Medicare by more than $4 billion over seven years.

Balance Billing. The Republican proposal also allows doctors who sign up with some plans in the new program to charge rates above the amounts currently allowed. This will give doctors incentives to leave the traditional Medicare program for new plans where they can charge higher rates. Only healthy and wealthy beneficiaries will risk joining the new plans, leaving the traditional program with a larger share of the most costly beneficiaries.

Medigap. Republicans do nothing to change the rules for Medicare supplementary insurance, or Medigap, that magnify the structural flaws in their plan. Republicans allow insurers providing Medigap in the traditional program to continue to discriminate on the basis of age and health status. Once healthy beneficiaries are enticed into medical savings accounts and other private plans, they will find it difficult to switch back to the traditional program if their health needs change.

No Subsidies for High Income Americans. At first blush, the Republican proposal to ask beneficiaries with higher incomes to pay the entire Medicare Part B premium may

seem to be good policy. However, by taking away any incentive for wealthier -- and usually healthier -- older Americans to participate in Medicare Part B, it will again have the effect of dividing the program.

Each of these policies will weaken Medicare's structure. Higher cost beneficiaries will be left in the traditional program, and Medicare costs will rise. If the effect of these changes were only to drive up costs in the traditional Medicare program, it would be bad enough. What the Republican plan does, however, is far worse.

It arbitrarily caps spending at an amount set in statute -- no matter what happens in the economy. If Medicare costs go up for an unforeseen reason, the Republican cap -- or fail-safe mechanism -- ensures that the Federal government bears none of these unexpected costs. Instead, every dollar of spending above the cap means a dollar extra in Medicare cuts in payments to doctors and hospitals.

So while the difference between the President's and the Republican's Medicare savings seems to be $44 billion, the actual gap could be much greater. If, for example, inflation were 1% higher than anticipated over the next five years, the Congressional Budget Office estimates that Medicare spending would increase by over $35 billion.

Providers would be left to treat the highest cost beneficiaries while getting paid less, forcing some to refuse to see Medicare patients. The real Republican agenda becomes clear: "wither on the vine" wasn't a slip of the tongue; it is a carefully designed legislative strategy.

On Medicaid -- the program that guarantees vital health services to poor children, pregnant women, people with disabilities and older Americans -- the policy differences are even greater and the consequences even more severe. While Samuelson is right to point out that both plans give states significant new flexibility to manage efficient Medicaid programs, he neglects the fundamental difference between the Republican's plan and the President's proposal. The President maintains the guarantee of meaningful coverage. The Republicans end it and replace it with a deeply underfunded block grant. With federal cuts of $85 billion, spending per person will increase by less than the rate of inflation and about 70% below projected private health care spending growth.

Under a block grant, States will be vulnerable to economic downturns, demographic changes and other circumstances beyond their control. During recessions, for example, more working people turn to Medicaid just as fiscal pressures on states increase. Without federal payments that rise as enrollment grows, as under the President's plan, states will bear the full burden of these additional costs. Because states will be allowed to cut spending as well, the total cuts in Medicaid could reach $285 billion over seven years.

Between three and six million Americans could lose Medicaid coverage under the Republican Medicaid plan. Samuelson suggests that if the Republican plan "forced severe cutbacks in coverage", Congress could fix it later. There is no evidence that such legislative fine-tuning has ever been politically practicable, and I wonder how many disabled children would go without wheelchairs and how many elderly Americans without nursing home care in

the meantime.

I"M CHANGING THIS.]As Mr. Samuelson says, we "pay our political leaders to be candid about the genuine choices that face the nation." That is precisely the President's point. The President has shown that we can balance the budget -- in seven years and as certified by the Congressional Budget Office -- while protecting Medicare and Medicaid and the values that we hold dear in this country.

Instead, the Republicans have chosen to *use* the current debate about how to balance the budget to pursue a completely different agenda. If this debate were about balancing the budget, we could do that tomorrow. The Republicans have chosen to make it about something else, and both they and Mr. Samuelson should be candid about that.

RESPONSE TO ROBERT SAMUELSON

Laura D'Andrea Tyson
Assistant to the President for Economic Policy

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Medicare. On Medicare, there are significant structural differences between the President's and the Republican's proposals. Medicare follows basic insurance principles: there is one pool, with shared risk **[deleted "and little chance for self-selection"].** The President offers beneficiaries more choices, while making certain that all new plans compete on quality and cost, not by avoiding sicker people who are poor insurance risks. The Republicans abandon the basic economic assumptions behind insurance by pulling healthier, wealthier beneficiaries into new plans and leaving the traditional Medicare program with older, sicker and more costly beneficiaries. How do they do this?

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Balance Billing. The Republican proposal also allows doctors who sign up with some plans in the new program to charge rates above the amounts currently allowed. This will give doctors incentives to leave the traditional Medicare program for new plans where they can charge higher rates. **Poorer and sicker beneficiaries may be unable to join the new plans,** leaving the traditional program with a larger share of the most costly beneficiaries.

Medigap. Republicans do nothing to change the rules for Medicare supplementary insurance, or Medigap, **which need changing. These rules** magnify the structural flaws in their plan. Republicans allow insurers providing Medigap in the traditional program to continue to discriminate on the basis of age and health status. **Moreover,** once healthy beneficiaries are enticed into medical savings accounts and other private plans, they will find it difficult to switch back to the traditional program if their health needs change.

Eliminating Subsidies for Higher Income Americans. **At first blush, the Republican proposal to end subsidies completely for Medicare Part B premiums for beneficiaries**

with higher incomes may seem to be good policy. However, by taking away any incentive for wealthier -- and usually healthier -- older Americans to participate in Medicare Part B, it will again have the effect of dividing the program.

Each of these policies will weaken Medicare's structure. Higher cost beneficiaries will be left in the traditional program, and Medicare costs will rise. If the effect of these changes were only to drive up costs in the traditional Medicare program, it would be bad enough. What the Republican plan does, however, is far worse.

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So while the difference between the President's and the Republican's Medicare savings seems to be $44 billion **over seven years,** the actual gap could be much greater. If, for example, inflation were 1% higher than anticipated over the next five years, the Congressional Budget Office estimates that Medicare spending would increase by over $35 billion.

Providers would be left to treat the highest cost beneficiaries while getting paid less, forcing some to refuse to see Medicare patients. The real Republican agenda becomes clear: "wither on the vine" wasn't a slip of the tongue; it is a carefully designed legislative strategy. **[LAURA: In some sense, this is pretty harsh. It accuses them of a careful strategy, but the thing driving the additional cuts are economic conditions (i.e., inflation) that are beyond their control.]**

Medicaid. On Medicaid -- the program that guarantees vital health services to poor children, pregnant women, people with disabilities and older Americans -- the policy differences are even greater and the consequences even more severe. While Samuelson is right to point out that both plans give states significant new flexibility to manage efficient Medicaid programs, he neglects the fundamental difference between the Republican's plan and the President's proposal. The President maintains the guarantee of meaningful coverage. The Republicans end it and replace it with a deeply underfunded block grant. **[Deleted comparison to inflation and private sector because our calculations are based on $117 billion, not $85.]**

Under a block grant, States will be vulnerable to economic downturns, demographic changes and other circumstances beyond their control. During recessions, for example, more working people turn to Medicaid just as fiscal pressures on states increase. Without federal payments that rise as enrollment grows -- as they would under the President's plan -- states will bear the full burden of these additional costs. Because states will be allowed to cut spending as well, the total cuts in Medicaid **will go far beyond the $85 billion in federal savings** and could reach $285 billion over seven years.

Between three and six million Americans could lose Medicaid coverage under the Republican Medicaid plan. Samuelson suggests that if the Republican plan "forced severe cutbacks in coverage", Congress could fix it later. **There is no evidence that is at all politically practicable and, even if it were,** I wonder how many disabled children would go without wheelchairs and how many elderly Americans without nursing home care in the meantime.

As the President has said, this debate is not about balancing the budget. The President has shown that we can balance the budget -- in seven years and as certified by the Congressional Budget Office -- while protecting Medicare and Medicaid and the values that we hold dear in this country. The Republicans do want to balance the budget, but they also want to make structural changes to Medicare and Medicaid that are not necessary and that will hurt tens of millions of American families.

For the Record

From "The Great Taxpayer Rip-Off" by Adam D. Thierer in the winter issue of Regulation:

Imagine if the federal government owned an old resource that was invisible and intangible, but available for immediate sale at an open-market price of approximately $37 billion, as estimated by the government itself. Too good to be true? Hardly. That resource is the electromagnetic [broadcast] spectrum. But instead of selling it off to private investors to help reduce the federal deficit and allow the spectrum to be put to its most efficient use, the Republican Congress is about to give large chunks of it away . . . to . . . television broadcasters . . . and their many affiliates.

The telecommunications deregulation legislation that recently passed both houses of Congress contains a provision requiring the Federal Communications Commission (FCC) to honor an ill-conceived plan set in motion some time ago. That plan would grant television broadcasters additional licenses to use part of the spectrum for broadcasting digital television. . . . Broadcasters already possess licenses for use of portions of the spectrum over which they provide the traditional analog television programming. Now the broadcasters have convinced Congress and the FCC to give them additional licenses to make the transition to superior-resolution digital television.

Yet this multi-billion dollar free lunch is not quite good enough for the broadcasters. Now they have even persuaded Congress that they should be allowed to do whatever they want with their free licenses. That means that they could provide high-definition digital television, or they could thumb their noses at this emerging industry and instead use the free spectrum to provide cellular services, paging services, or any other combination of services they find profitable.

THE WASHINGTON POST
WEDNESDAY, JANUARY 17, 1996

Robert J. Samuelson

Phony Debate

If President Clinton has his way, we will have a false debate in the 1996 election campaign. It will not engage real political choices—choices framed by our appetite for government services and our distaste for taxes—but rather artificial choices crafted by Clinton to advance his reelection. Clinton has clearly been using the budget as an election platform, and last week he made it official by suggesting that the debate's big "policy" issues be settled in November. Although this sounds sensible, it isn't.

It's true that elections can resolve basic political disagreements. But the differences in the budget talks aren't so deep. They have been vastly exaggerated by the rhetoric on both sides, and the press has bought into the myth of a thunderous clash of political philosophies. In the past year, the chief difference between the White House and the Republican Congress has been the Republicans' willingness to make choices and the president's reluctance to do so. That is not a difference in philosophy so much as in political style or, perhaps, courage.

What Clinton craves is a campaign in which he runs as the defender of middle-class social programs—Social Security, Medicare, long-term care under Medicaid—against callous Republicans who would plunder these programs to cut taxes for the rich. At his press conference, Clinton rehearsed his pitch by repeating his charges that Republicans have "an agenda that seeks to prevent America from giving Medicare to seniors" in order to finance a "huge tax cut." Clinton knows these statements are lies. A campaign based on them will retard public understanding.

I dislike using the word "lies," but Clinton exploits such forbearance (widespread in the press) to spread untruths. Review, again, the facts. Nothing the Republicans have done suggests ending Medicare. Under their budget, spending would rise from $178 billion in 1995 to around $294 billion in 2002. Although "managed care" would be emphasized, no one would have to join a health maintenance organization. The Congressional Budget Office estimates that about 24 percent of Medicare recipients would belong to HMOs in 2002, up from about 10 percent now.

As for the tax cut, you can believe (as I do) that it's bad policy, but it surely isn't "huge." Originally, it was about $321 billion over seven years—or about 3 percent of the $11.5 trillion of projected revenues over the same period. Since then it's been shaved to $177 billion, or about 1.5 percent of estimated revenues. It would hardly unburden the rich of taxes. A study by the Urban Institute found it would raise the income of the richest fifth of Americans by a scant 0.2 percent.

The point is that our budget choices transcend class conflict. The richest fifth of taxpayers already pay more than half of all federal taxes; these amounts can be jiggered up or down a bit, but they can't erase the basic political dilemma of budget deficits. In general, Americans don't want steep cuts in social spending, especially for the elderly. But they also reject higher taxes, while recognizing that continual deficits shift the distasteful choices (lower benefits, higher taxes, or both) to the future: today's younger workers and their children.

"I dislike using the word 'lies,' but Clinton exploits such forbearance (widespread in the press) to spread untruths."

All these problems worsen in the next century, when the retirement of the baby boom generation will raise spending for the elderly. The question is whether we can discuss them candidly. If Republicans were shrewd, they could puncture Clinton's self-serving rhetoric. But too many Republicans are caught up in their own delusions, exaggerations and petty lies. They portray their tax cut as larger than it is and present themselves as "revolutionaries" who would sharply shrink government. So they are perfect foils for Clinton's rhetoric.

The press has sanctified it by treating the differences in the budget debate as huge and principled. They aren't. Take Medicare. In theory, Clinton might oppose "managed" care, because it might (no one knows) erode the quality of care. But recall that in 1993 Clinton proposed a health program that would have effectively forced most of the under-65 population into managed care. Indeed, he continues to endorse managed care.

The story on Medicaid—health insurance for the poor and nursing homes—is similar: The differences are more of rhetoric than of policy. The basic issue is not (as Clinton implies) whether people will be thrown out of nursing homes. It is whether open-ended Medicaid spending—about 40 percent paid by states—will slowly preempt state spending for other purposes: schools, police, parks. To prevent that, Clinton is giving states more power to control spending by waiving some Medicaid rules.

The Republicans would go further by transforming federal Medicaid payments into fixed grants to states and enlarging states' powers to set benefits and eligibility. But Medicaid spending would still rise substantially. If (as critics fear), the block grants forced severe cutbacks in coverage, Congress could increase funding and impose tougher requirements. Nothing is irreversible. These changes represent efforts to find new ways to deliver government services at less cost. They may or may not work, but they are differences of approach and not of purpose.

By pretending otherwise, Clinton is hypocritical. His health plan envisioned changes far more radical than anything in the Republican budget. Yet, he didn't suggest delaying that until an election. Clinton says that we don't need to make "policy" changes now, because his budget would balance in 2002, by the CBO's estimate. Though true, this claim must be qualified. About half the needed spending cuts haven't yet been made; future Congresses would have to act. The same defect also applies to the Republican budget. That's why a tax cut now is so wrong.

We pay our political leaders to make choices. They should. The idea of holding an election over whether Medicaid should be turned into block grants is laughable. We also pay our political leaders to be candid about the genuine choices that face the nation. Those choices won't vanish, regardless of who wins the next election. Spending for the old and poor will still collide with the nation's willingness to pay taxes. If Clinton convinces us otherwise, we will pay the price even if he doesn't.

David S. Broder

A Senate of Millionaires

Want a perfectly safe bet on the November election results? Bet that there will be even more millionaires in the U.S. Senate.

What once was called "The World's Most Exclusive Club" increasingly requires personal wealth as a condition for membership. The combination of rising campaign costs and foolishly frozen limits on individual contributions has increased the advantage of self-financed candidates. The 1996 candidate lists are full of them.

In Georgia, for example, all three Republicans seeking nomination to the vacancy created by the retirement of Democratic Sen. Sam Nunn are men of substantial means. In Minnesota, former Republican senator Rudy Boschwitz, a wealthy retired businessman, is trying to reclaim the seat he lost to populist professor Paul Wellstone six years ago. And in a half-dozen other states, Republicans either have or are trying to recruit challengers who can afford to pay their own way.

What is more striking is the extent to which the Democrats—the self-styled party of the people—have begun to rely on affluence as the criterion for picking their Senate candidates.

In Colorado, New Hampshire, South Carolina and Virginia, the favored candidates for the Democratic nomination are all men of independent means, and in many cases, without wealth would not be considered to have Senate credentials. In Illinois, North Carolina, Oklahoma and Oregon, men of similar backgrounds are given a chance of winning nomination because of their bankrolls. It is not a new pattern. Among the Democratic senators seeking reelection this year is John D. (Jay) Rockefeller IV of West Virginia, who spent more than $10 million of his own money to be elected in 1984.

Retiring Sen. Bill Bradley (D-N.J.), a banker's son who earned big money as a New York Knicks basketball star, writes about the advantage wealth confers on a politician in his newly published memoir, "Time Present, Time Past." Bradley recounts how he decided he could afford to give or lend a quarter-million dollars to his first Senate campaign in 1978—about one-fifth of his budget. "It assured me that I could compete even if I didn't raise as much as I had hoped," he says. "With the existence of that self-generated cushion, I was able to raise more. When potential contributors see a campaign with money, they assume it's well-run, and they are more likely to make contributions. Everyone likes to be with a winner, whether in basketball or politics."

Bradley points out that he was a piker compared with many of his colleagues. "Four years later in New Jersey, Frank Lautenberg, a wealthy computer executive with no elective experience, would spend over $3.5 million of his own money to win a U.S. Senate seat. . . . In Wisconsin in 1988, Herb Kohl promised to spend primarily his own money in his Senate campaign; $7.5 million later, he won."

Financial disclosure statements show that at least 28 of the 100 sitting senators have a net worth of $1 million or more—many of them much more. Michael Huffington, a Texas oil man, spent $28 million of his own money in trying for a California Senate seat in 1994—but still lost. The price is going up.

Wealth is not a determinant of votes in the Senate. There are liberals like Rockefeller and Ted Kennedy along with conservatives. But wealth confers an unfair advantage in the campaigns for the Senate, and makes it much harder than it should be for people of talent, but no wealth, to compete.

The main reason for this disadvantage is the unrealistically low limit on individual contributions. The law, as Bradley notes, provides that "whereas a candidate could contribute as much of his own money as he chose, he could accept individual contributions of only $2,000 from others—$1,000 of it for the primary and $1,000 for the general election."

The contribution limits were set 22 years ago and never have been adjusted; inflation has eroded their value by two-thirds since then. Raising contribution limits is far down the list of proposals of most campaign finance reformers; many want to freeze them or reduce them.

But all the contribution limits are accomplishing today is to create an ever-greater advantage for self-financed millionaire candidates. Steve Forbes's rivals in the Republican presidential race are complaining that his wealth is tilting the odds in the contest, where he is the only one who is paying his own way and therefore spending as much as he wants. But the Senate picture is not very different.

If we really want to be ruled by a wealthy elite, fine; but it is a foolish populism that insists it despises the influence of wealth, and then resists liberalizing campaign contribution limits.

Rich men understand that. It's too bad the reformers can't figure it out.

THE WASHINGTON POST
WEDNESDAY, JANUARY 17, 1996

Alan B. Morrison

Reining In Our Writers on the Hill

Both the House of Representatives in its Dec. 22 vote and The Post in its Dec. 26 editorial ["Don't Ban Congressional Books"] got it half right on the subject of members of Congress writing books for profit. Banning unearned advances and requiring royalties and other terms of book contracts to be approved under a "usual and customary" standard are positive steps. But the new rule falls far short of what the House ethics committee recommended and existing law and sound policy require.

There can be no doubt that the worst potential for abuses occurs when members write books and receive huge advances that look like gifts (which were recently banned) or bribes. Those would now be forbidden. The problem is that the exception for royalties still leaves lots of room for mischief.

What The Post failed to see is that the debate is not about whether members of Congress should write books, any more than the debate about honoraria and speeches was about whether members should be forbidden to express their views. In both cases the issue was the propriety of accepting money in circumstances in which it appears to many that the payment is being made more because of who the speaker or writer is than because of what he or she has to say. Publishers started bidding for the works of Newt Gingrich because he became Speaker Gingrich, not because his prose suddenly turned magnificent and profound.

Officials in the executive branch can write books, but they cannot accept royalties if the book is related to their work—a major impediment to trading on one's office that was not included in the new House rule. At least when Sen. William Cohen wrote his novel, he avoided that problem.

In addition to royalties, there are other ways to funnel money into members' pockets or provide them non-pecuniary benefits. Consider the book tour and its potential for extensive travel and exposure to important audiences and media, not to mention lavish living on the road, usually with a spouse in tow. As any author will relate, publishers have enormous discretion in how much publicity they are prepared to sponsor, and it will be almost impossible for the House to police those practices, even if its ethics committee is inclined to do so. Moreover, because some authors are "worth" more than others and command higher royalty rates, it will not be easy to determine whether the royalties being paid are usual or are a special payment. And it doesn't take a genius to find opportunities for evasion, especially if friendly lobbyists arrange to buy large numbers of copies for their trade association clients who are dying to read the member's golden words.

Taking Exception

Then there is the issue of who is actually going to write these books. The new House rule allows publishers to pay advances to ghost writers and also full royalties to members who may have done no more than lend their names to the book and read over what others have written. The rule would forbid advances for congressional staff, but it wouldn't bar aides from devoting their off-duty, and perhaps not-so-off-duty, time to working on a book, enabling members to save on the advance to outsiders and pocket all the earnings themselves.

There is another reason why the House rules should subject book royalty income to the 15 percent earned income limitation that governs congressional earnings generally: It would bring the House into compliance with the existing ethics law that applies to all outside earned income, whether from digging ditches, practicing medicine or writing books.

That statute was passed in 1989, as part of a package in which House members received substantial pay raises and now earn more than $133,000 a year. It applies to senior officials in all three branches of government because Congress decided to pay those officials reasonably well but, at the same time, limit the amount of their outside earnings to 15 percent (although they can continue to clip coupons, collect rents or accept royalty checks from their pre-government writings).

In addition to being clear and easily administered, which the new House rule is not, the 15 percent limit serves as a proxy for another important government interest: seeing that high officials are not diverted from their primary jobs by trying to get rich on the side.

The question is not whether members of Congress should write about their experiences or even earn significant amounts of money from doing so. The question is whether they should do so while in office. Even if the statute limiting outside income to 15 percent did not apply to book royalties earned while in office—which it plainly does—the House rule causes too many problems, for too few benefits, when members write books for profit while serving in Congress.

The Senate has a rule similar to the old House rule, but its leader has no lucrative book contract that might be affected by a change. This should make it easier for the Senate to do the right thing when it reconvenes in January. And maybe, if the Senate adopts the proposal of the House ethics committee and makes all royalty income subject to the 15 percent rule, the House might think the better of it and comply with the law also.

The writer is an attorney with Public Citizen.

TO: Laura Tyson
FROM: Jen Klein J.K.
DATE: 1/23/95
RE: Op Ed

Attached please find a new draft of the response to Samuelson. I did not add a part about cutbacks in Medicaid payments for Medicare premiums and cost sharing for poor beneficiaries because it's not really a structural difference. It's bad policy, but all it means is that poor beneficiaries won't get Medicare. Other than that, I think I made all of the changes we talked about.

Let me know what you think.

RESPONSE TO ROBERT SAMUELSON

Laura D'Andrea Tyson
Assistant to the President for Economic Policy

In his January 17 op ed, Robert Samuelson accuses both the President and the Republicans of exaggerating the policy differences that remain on Medicare and Medicaid in the budget talks. Unfortunately, the disagreements are quite real. The President has put forward a proposal to restructure these programs while maintaining their basic guarantee. The Republicans continue to insist on changes that we believe will fundamentally erode Medicare and Medicaid and have serious consequences for the health of the over 60 million Americans who rely on these programs.

On Medicare, there are significant structural differences between the President's and the Republican's proposals. Medicare follows basic insurance principles: there is one pool, with shared risk and little chance for self-selection. The President offers beneficiaries more choices, while making certain that all new plans compete on quality and cost, not by avoiding sicker people who are poor insurance risks. The Republicans abandon the basic economic assumptions behind insurance by pulling healthier, wealthier beneficiaries into new plans and leaving the traditional Medicare program with older, sicker and more costly beneficiaries. How do they do this?

Medical Savings Accounts. The Republican proposal offers medical savings accounts with very high deductibles that will attract beneficiaries who do not anticipate spending too much on health care and who can afford to pay out of pocket for the majority of their health expenses. This will leave beneficiaries with greater health needs in the traditional Medicare program, and according to the Congressional Budget Office, actually increase costs for Medicare by more than $4 billion over seven years.

Balance Billing. The Republican proposal also allows doctors who sign up with some plans in the new program to charge rates above the amounts currently allowed. This will give doctors incentives to leave the traditional Medicare program for new plans where they can charge higher rates. Only healthy and wealthy beneficiaries will risk joining the new plans, leaving the traditional program with a larger share of the most costly beneficiaries.

Medigap. Republicans do nothing to change the rules for Medicare supplementary insurance, or Medigap, that magnify the structural flaws in their plan. Republicans allow insurers providing Medigap in the traditional program to continue to discriminate on the basis of age and health status. Once healthy beneficiaries are enticed into medical savings accounts and other private plans, they will find it difficult to switch back to the traditional program if their health needs change.

No Subsidies for High Income Americans. At first blush, the Republican proposal

to ask beneficiaries with higher incomes to pay the entire Medicare Part B premium may seem to be good policy. However, by taking away any incentive for wealthier -- and usually healthier -- older Americans to participate in Medicare Part B, it will again have the effect of dividing the program.

Each of these policies will weaken Medicare's structure. Higher cost beneficiaries will be left in the traditional program, and Medicare costs will rise. If the effect of these changes were only to drive up costs in the traditional Medicare program, it would be bad enough. What the Republican plan does, however, is far worse.

It arbitrarily caps spending at an amount set in statute -- no matter what happens in the economy. If Medicare costs go up for an unforeseen reason, the Republican cap -- or fail-safe mechanism -- ensures that the Federal government bears none of these unexpected costs. Instead, every dollar of spending above the cap means a dollar extra in Medicare cuts in payments to doctors and hospitals.

So while the difference between the President's and the Republican's Medicare savings seems to be $44 billion, the actual gap could be much greater. If, for example, inflation were 1% higher than anticipated over the next five years, the Congressional Budget Office estimates that Medicare spending would increase by over $35 billion.

Providers would be left to treat the highest cost beneficiaries while getting paid less, forcing some to refuse to see Medicare patients. In Speaker Gingrich's words, Medicare would "wither on the vine." The real Republican agenda becomes clear: "wither on the vine" wasn't a slip of the tongue; it is a carefully designed legislative strategy.

On Medicaid -- the program that guarantees vital health services to poor children, pregnant women, people with disabilities and older Americans -- the policy differences are even greater and the consequences even more severe. While Samuelson is right to point out that both plans give states significant new flexibility to manage efficient Medicaid programs, he neglects the fundamental difference between the Republican's plan and the President's proposal. The President maintains the guarantee of meaningful coverage. The Republicans end it and replace it with a deeply underfunded block grant. Spending per person will increase by less than the rate of inflation and about 70% below projected private health care spending growth.

Under a block grant, States will be vulnerable to economic downturns, demographic changes and other circumstances beyond their control. During recessions, for example, more working people turn to Medicaid just as fiscal pressures on states increase. Without federal payments that rise as enrollment grows, as under the President's plan, states will bear the full burden of these additional costs. Because states will be allowed to cut spending as well, the total cuts in Medicaid could reach $285 billion over seven years.

Between three and six million Americans could lose Medicaid coverage under the Republican Medicaid plan. Samuelson suggests that if the Republican plan "forced severe cutbacks in coverage", Congress could fix it later. I wonder how many disabled children

would go without wheelchairs and how many elderly Americans without nursing home care in the meantime.

As Mr. Samuelson says, we "pay our political leaders to be candid about the genuine choices that face the nation." That is precisely the President's point. The President has shown that we can balance the budget -- in seven years and as certified by the Congressional Budget Office -- while protecting Medicare and Medicaid and the values that we hold dear in this country. We simply don't need to make the severe changes to Medicare and Medicaid proposed by the Republicans.

Instead, the Republicans have chosen to *use* the current debate about how to balance the budget to pursue a completely different agenda. If this debate were about balancing the budget, we could do that tomorrow. The Republicans have chosen to make it about something else, and both they and Mr. Samuelson should be candid about that.

RESPONSE TO ROBERT SAMUELSON

Laura D'Andrea Tyson

Assistant to the President for Economic Policy

With but a cavalier wave of his hand Robert Samuelson suggests in his January 17, Op-Ed, that the policy differences remaining between the President and the Republicans are ~~exaggerated and~~ a mere myth. Yet, those who claim to be serious policy analysts have an obligation to look seriously at what the most basic economic principles tell us about the structure of the Republican's Medicare and Medicaid proposals and how serious the consequences could be for the 60 million Americans and their families who rely on these proposals.

While serious structural problems remain with the overall health system of the United States, one of the sound structural components is that Medicare has been a program that follows the basic economic principles of insurance: there is one pool, with shared risks and little chance for self-selection. While the President's Medicare proposal offers beneficiaries more choices while making certain that new plans compete on quality and cost, not by avoiding sicker people who are poor insurance risks, the Republican proposal taken together contradicts this principle, by seeking to pull out the healthiest and wealthiest seniors in a way that would leave the traditional Medicare program with an older, sicker and more costly population with less dollars per beneficiaries. How do they do this.

Medical Savings Account: This Republican proposal offers accounts with very high deductibles that will attract beneficiaries who do not anticipate spending too much on health care and who can afford to pay out of pocket for the majority of their health expenses. This will leave traditional Medicare with older and sicker beneficiaries, and according to the Congressional Budget Office, actually increase costs for Medicare by more than $4 billion over seven years.

Balance Billing in New Plans: Another plank is this structure of dividing Medicare is the Republican proposal to allow doctors in the new program to charge rates above the amounts currently allowed. This will leave older Americans vulnerable to higher costs and give doctors incentives to leave the traditional Medicare program for new plans where they can charge higher rates.

No Subsidies for High Income Americans: At first blush, higher premiums for better off older Americans might seem to be fair policy. Yet, as one can see, by taking away any incentive for wealthier -- and usually healthier-- older Americans to participate in Medicare Part B, it is only one more element in a plan designed to segment and weaken today's Medicare structure.

- Ability for MC providers to charge more if allowed medicare are insufficient

- No guarantee for poorest, sickest → Medicaid

- Medigap differences
- Medicare growth rate

If the effect of these changes were only to drive up costs in the traditional Medicare program, it would be bad enough. What the Republican plan does, however, is far worse. It arbitrarily caps spending at an amount set in statute -- no matter what happens in the economy. With an arbitrary can -- or fail-safe mechanism -- is costs go up for an unforeseen reason, additional cuts would come directly from payments to the doctors and hospitals that serve people in the traditional Medicare program. So while the difference between the President's and the Republican's Medicare savings seems to be $44 billion, the actual gap could be much greater. According to analysis by the Congressional Budget Office, even a 1% increase in inflation could cause Medicare costs to increase by over $35 billion. Providers would be left to treat the highest cost beneficiaries while getting paid less, forcing some to refuse to see Medicare patients. The full impact of the Republican structure is therefore to risk segmenting the Medicare program, driving up costs on those in the traditional Medicare program, and then arbitrarily cutting provider payments or benefits -- making the program less and less attractive and more and more expensive. Speaker Gingrich's line about Medicare withering on the vine is not a slip of the tongue: it is a carefully designed legislative strategy.

The consequences of the Republican plan to end Medicaid -- the program that guarantees vital health services to poor children, pregnant women, people with disabilities and older Americans -- is even more severe. While Samuelson is right to that both plans give states significant new flexibility to manage efficient Medicaid programs, he neglects the fundamental difference between President's call for maintaining the individual guarantee of meaningful coverage under Medicaid and the Republican's proposal to end this individual

entitlement and replace it with a deeply underfunded block grant. Spending per person will increase by less than the rate of inflation and about 70% below projected private health care spending growth.

Under a block grant, States -- and therefore the most health care of the most vulnerable of our society -- will be vulnerable to economic downturns, demographic changes and other circumstances beyond their control. During recessions, for example, more working people turn to Medicaid just as fiscal pressures on states increase. Yet, with a block grant, states may have no choice but to make cuts that they would feel are on unconscionable -- simply because without a shared federal responsibility, they cannot bear the full burden of the additional costs. Because states will be allowed to cut their spending significantly as well, the total cuts in Medicaid could reach $285 billion over seven years. Without federal payments that rise as enrollment grows, as under the President's plan, states will bear the full burden of these additional costs.

Between three and six million Americans could lose Medicaid coverage under the Republican Medicaid plan. Indeed, it could be far worse: if states only contribute what is needed to get their match from the states, the total cuts in Medicare over the next seven years could reach over $250 billion.

Samuelson' suggests that if the Republican plan "forced severe cutbacks in coverage", Congress could fix it later. I wonder how many disabled children would go without wheelchairs and how many elderly Americans without nursing home care in the meantime.

As Mr. Samuelson says, "we pay our political leaders to make choices." That is exactly what the President has done. He has chosen to fight for a balanced budget that protects Medicare and Medicaid and the values that we hold dear in this country. And that is what he will continue to do.

DEPARTMENT OF HEALTH AND HUMAN SERVICES
ASSISTANT SECRETARY FOR PLANNING AND EVALUATION

PHONE: (202)690-8794 FAX: (202)690-6518

Date: _____

From: Jeanne _____ To: Jennifer _____

Division: _____ Division: _____

City & State: _____ City & State: _____

Office Number: _____ Office Number: _____

Fax Number: _____ Fax Number: _____

Number of Pages + cover _____

REMARKS: Here's the summary of the analysis - Please call w/ questions.

DRAFT

Analysis of the Impact of Higher Inflation on Medicare

The White House is interested in the following question: How much more spending would be capped by the failsafe if inflation were higher than predicted?

The attached table is an extrapolation of a CBO's analysis of the effects of higher inflation on outlays. The only additional analysis is updating it to the new CBO baseline.

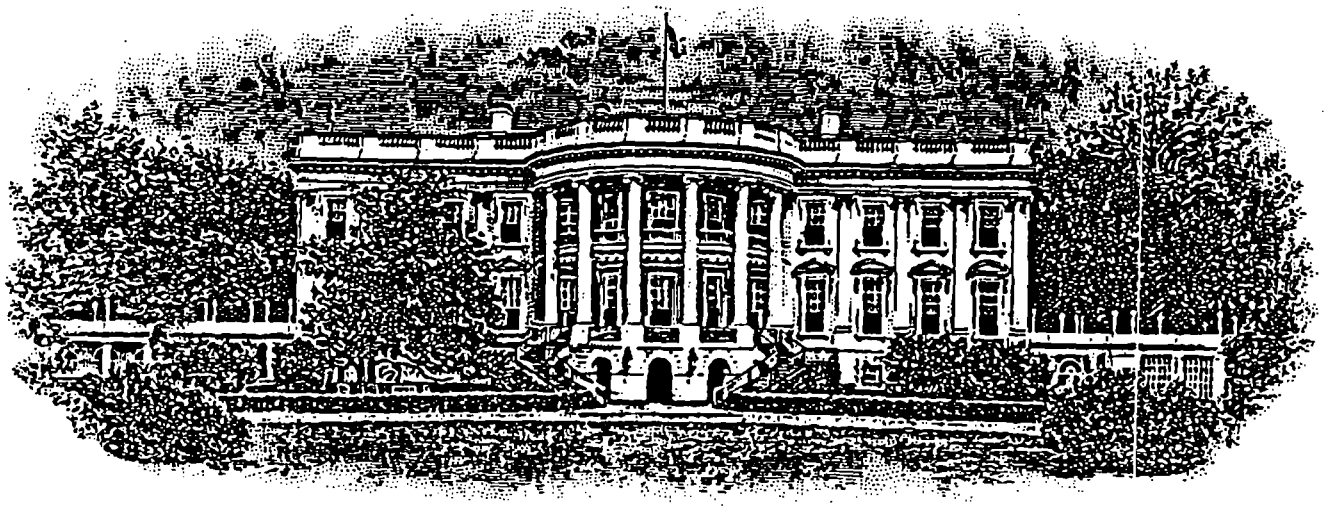
To convert this into something that can be used by the WH, the following assumptions are made. First, the policies that achieve $202 billion in seven-year savings are in effect. According to the Senate Budget Committee side-by-side and CBO scoring, the failsafe saves $12 billion over seven years. If the baseline were higher than expected, and the failsafe were at the same level, then the increase in the baseline would be added to the $12 billion in the failsafe. However, because of the year-by-year issues, and the different time periods for the analyses, the numbers cannot be directly added. The following is a recommended sentence.

"The failsafe mechanism fixes the maximum Medicare spending in law. Higher than anticipated Medicare spending, for any reason including unexpected inflation, would cause the failsafe to reduce provider payments dollar-for-dollar. For example, if inflation were one percent higher in each year between now and 2000, then Medicare expenditures would be $36 billion higher over the next five years. All of these dollars would have to be absorbed by the failsafe."

(based on CBO ~~sensitivity~~ "rules of thumb")

STILL IN CLEARANCE at OMB.

The White House



DOMESTIC POLICY

FACSIMILE TRANSMISSION COVER SHEET

TO: Jen K.

FAX NUMBER: 6-2878

TELEPHONE NUMBER:

FROM: Chris J.

TELEPHONE NUMBER:

PAGES (INCLUDING COVER):

COMMENTS:

To Chris
From Jeanne

Medicaid:

On Medicaid, the differences are probably the most pronounced. The Republicans end Medicaid. It is replaced by a smaller block grant program with Federal savings of $85 billion over seven years. The President's plan reforms Medicaid by restricting cost growth and giving states more flexibility to manage their programs. It proves that you can saves $59 billion and preserve the Federal commitment to coverage and to shared responsibility with the states. While a $26 billion difference in savings may not seem large, it is deceptive. Since the Republicans also reduce the state contributions, the real cut is more like $285 billion over seven years. With spending growth per person below inflation, the Speaker cannot deny that this is a cut. Nor will the seniors, people with disabilities and children covered by Medicaid. As many as 3 to 6 million people could be denied Medicaid in 2002 under the Republican proposal. Hospitals, nursing homes, and physicians who care for the 35 million Medicaid beneficiaries will also feel the effects of this 20 percent reduction.

(according to DHHS)

HOPE THIS IS WHAT YOU were looking for.

LANL Monthly Update #1

In September, the Health Care Financing Administration signed an interagency agreement with the Los Alamos National Laboratories (LANL). The agreement is for the two-year period, Fiscal Year (FY) 1996 through FY 1997. Its purpose is to provide analytical and computer support to develop improved approaches to operating the Medicare program. The ultimate goal is the development of prepayment software to detect and deter fraudulent and improper claims. The agreement grew out of Operation Restore Trust and is a substantial expansion of HCFA's initiatives to control fraud and abuse in the Medicare program.

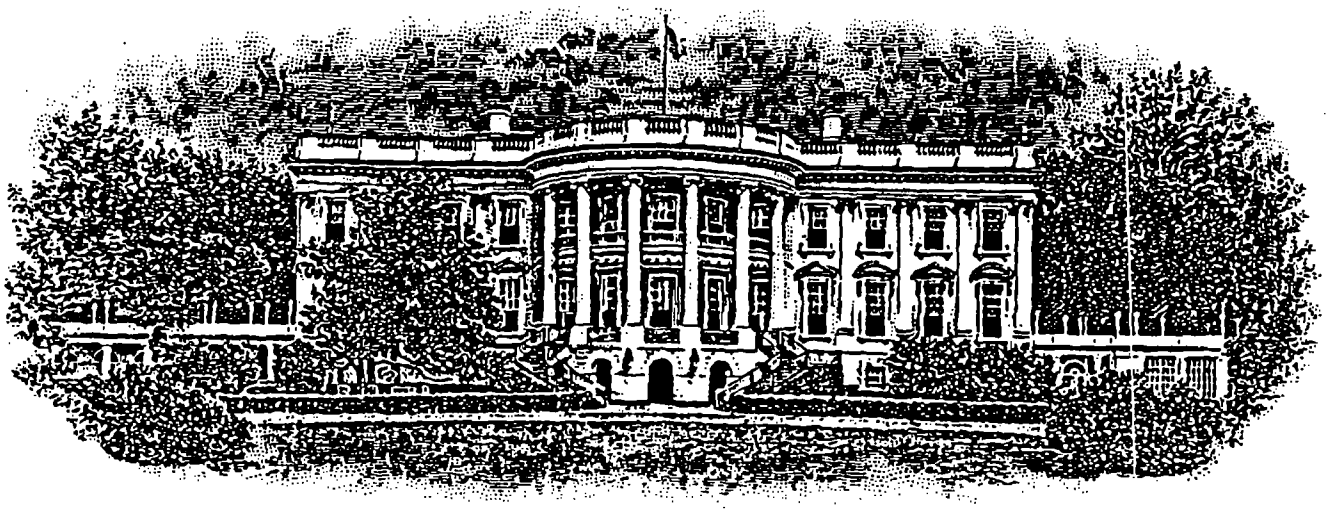
LANL has agreed to develop analytical tools to identify patterns of fraud and abuse in Medicare claims and to design prepayment edit systems for the existing claims processing systems and the Medicare Transaction System (MTS). Besides fraud and abuse, LANL will help evaluate MTS design alternatives by simulating the claims volumes for different data network configurations. LANL will also help evaluate transition scenarios and review the MTS security plans.

In early October, 1995, held a pictel conference call to establish the basic structure for operation and management of the agreement. We agreed that we will have weekly conference calls and a written report of progress at least every two months. LANL identified a large number of documents that they need.

To start the agreement, HCFA and LANL held a conference at the end of October here in Baltimore. During the conference, BPO and BDMS staff gave presentations to provide an overview of Part A and B payment procedures, medical review, fraud and abuse, appeals, Medicare secondary payor, CWF, MTS and NCH data. HCFA and LANL also discussed plans for training LANL staff, task scheduling, and data transfer. The conference was extremely successful. LANL expressed great enthusiasm for the project and brought with them a fresh perspective for tackling the fraud and MTS initiatives. LANL and HCFA staff worked very well together and all felt very positive about the challenges ahead.

The first part of the project will involve an intense training program to expose LANL to the intricacies of the Medicare Program. In order for the LANL team to develop the prepayment edits and pattern recognition approaches called for in the agreement, they must develop a working knowledge of contractor fraud detection practices, focused medical review procedures, edit development, and the integration of these functions into the overall claims processing system. Between now and the end of January, LANL will be visiting a variety of contractor sites (i.e. fiscal intermediary, carrier, and DMERC contractors, contractors using different standard systems, contractors that are doing a

The White House



DOMESTIC POLICY

FACSIMILE TRANSMISSION COVER SHEET

TO: Jennifer Klein

FAX NUMBER: 6-2878

TELEPHONE NUMBER:

FROM: Chris

TELEPHONE NUMBER:

PAGES (INCLUDING COVER):

COMMENTS:

DRAFT

NOT YET CLEARED by OMB

Analysis of the Impact of Higher Inflation on Medicare

The White House is interested in the following question: How much more spending would be capped by the failsafe if inflation were higher than predicted?

The attached table is an extrapolation of a CBO's analysis of the effects of higher inflation on outlays. The only additional analysis is updating it to the new CBO baseline.

To convert this into something that can be used by the WH, the following assumptions are made. First, the policies that achieve $202 billion in seven-year savings are in effect. According to the Senate Budget Committee side-by-side and CBO scoring, the failsafe saves $12 billion over seven years. If the baseline were higher than expected, and the failsafe were at the same level, then the increase in the baseline would be added to the $12 billion in the failsafe. However, because of the year-by-year issues, and the different time periods for the analyses, the numbers cannot be directly added. The following is a recommended sentence.

"The failsafe mechanism fixes the maximum Medicare spending in law. Higher than anticipated Medicare spending, for any reason including unexpected inflation, would cause the failsafe to reduce provider payments dollar-for-dollar. For example, if inflation were one percent higher in each year between now and 2000, then Medicare expenditures would be $36 billion higher over the next five years. All of these dollars would have to be absorbed by the failsafe."

(*)

based on CBO sensitivity analyses

Jen:
this is almost
perfect. Hope is helpful for Laura's piece. Also, I'm working w/ Joan L. on a Medicaid numbers insert.

Analysis of the Effects of Higher Inflation on Medicare Spending
(Dollars in billions; fiscal years)

	1995	1996	1997	1998	1999	2000	1995 - 2000
CBO Gross Medicare Baseline (1) March 1995	178.2	199.1	219.4	240.4	263.4	288.1	**1,388.6**
CBO's Estimates of Increased Spending With Inflation + 1% (2)							
SMI	0.424	1.183	2.023	3.147	4.648	6.431	**17.9**
Premiums	0	0	0	0	-0.156	-0.4	**(0.6)**
HI	0.081	0.935	2.173	3.692	5.44	7.431	**19.8**
Total Increased Spending	0.505	2.118	4.196	6.839	9.932	13.462	**37.1**
Percent of Gross Spending	0.3%	1.1%	1.9%	2.8%	3.8%	4.7%	**2.7%**
CBO Gross Medicare Baseline (1) December 1995	177.4	196.4	215.9	236.4	258.1	280.7	**1,364.9**
Extrapolation of Inflation + 1% (3)	0.503	2.089	4.129	6.725	9.732	13.116	**36.3**

(1) Mandatory spending including premium receipts
(2) From CBO analysis
(3) Calculated by multiplying the percent
19-Jan-96

Appendix C

How the Economy Affects the Budget

The federal budget is highly sensitive to the economy. Revenues depend on taxable incomes--including wages and salaries, interest and other nonwage income, and corporate profits--which generally move in step with economic growth. Many benefit programs are pegged to inflation, either directly (like Social Security) or indirectly (like Medicare); others (primarily unemployment insurance) are linked to the unemployment rate. And the Treasury continually borrows and refinances the government's debt at market interest rates.

The Congressional Budget Office (CBO) has distilled the links between key economic assumptions and federal budget projections into four rules of thumb. Those rules generate estimates of the impact on budget totals of changes in real growth, unemployment, inflation, and interest rates. Each rule assumes that the economic variable in question differs from CBO's baseline assumption by 1 percentage point, starting in January 1995. As noted below, such rules of thumb are highly simplified and should be used with caution. Budget projections are also subject to other kinds of errors that are technical in nature and not directly related to economic forecasting. However, there is no similarly easy way to encapsulate the variability of budget outcomes that can stem from technical uncertainty.

Real Growth

Strong economic growth narrows the federal budget deficit, and weak economic growth widens it. The first rule of thumb produces an estimate of the budgetary impact of economic growth that is significantly weaker than that assumed in CBO's baseline.

In its baseline, CBO assumes that the strong economic growth experienced in 1994 continues into the first part of 1995 before slackening. That assumption results in a rate of growth in real gross domestic product (GDP) that averages 3.1 percent in 1995. Real GDP growth falls below 2 percent in 1996, then levels off at about 2.3 percent thereafter. Subtracting 1 percentage point from the rate of real growth beginning in January 1995 implies more moderate growth in that year, followed by fairly anemic growth in the succeeding years. Under that slow-growth scenario, by 2000, GDP lies more than 5 percent below CBO's baseline assumption.

Weak economic growth also dampens the labor market--the unemployment rate inches up as businesses employ fewer workers in response to weak demand. By 2000, the slow-growth scenario produces an unemployment rate of just over 8 percent, more than 2 percentage points above the baseline.

This scenario significantly impedes growth in taxable incomes, leading to revenue losses that mount from $9 billion in 1995 to $125 billion in 2000 (see Table C-1). The loss in revenues in 2000 is more than 7 percent of baseline revenues, somewhat greater than the 5 percent loss in GDP. Outlays for benefit programs--chiefly unemployment insurance--rise by only $1 billion in 1995. In the following years, however, they climb by larger amounts,

Table C-1.
Effects on CBO Budget Projections of Selected Changes in Economic Assumptions (By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000
Real Growth: Effect of 1-Percentage-Point Lower Annual Rate Beginning January 1995						
Change in Revenues	-9	-27	-49	-72	-97	-125
Change in Outlays						
Net interest (Debt service)	a	2	5	9	15	24
Mandatory spending	1	3	5	7	10	12
Total	1	4	9	16	25	36
Change in Deficit	10	32	59	88	122	161
Unemployment: Effect of 1-Percentage-Point Higher Annual Rate Beginning January 1995						
Change in Revenues	-35	-51	-54	-56	-58	-61
Change in Outlays						
Net interest (Debt service)	1	5	9	13	17	23
Mandatory spending	3	5	6	6	6	6
Total	4	10	14	19	23	29
Change in Deficit	39	61	68	74	81	89
Inflation: Effect of 1-Percentage-Point Higher Annual Rate Beginning January 1995						
Change in Revenues	7	21	37	54	72	92
Change in Outlays						
Net interest						
Higher rates	5	17	24	29	34	40
Debt service	a	a	a	1	1	2
Discretionary spending	a	a	1	3	9	14
Mandatory spending	3	7	15	25	37	49
Total	8	24	40	58	81	105
Change in Deficit	1	3	3	4	9	13
Interest Rates: Effect of 1-Percentage-Point Higher Annual Rates Beginning January 1995						
Change in Revenues	0	0	0	0	0	0
Change in Outlays						
Net interest						
Higher rates	5	17	24	29	34	40
Debt service	a	1	3	5	7	10
Mandatory spending	2	1	1	1	1	1
Total	8	19	28	35	42	50
Change in Deficit	8	19	28	35	42	50

SOURCE: Congressional Budget Office.

a. Less than $500 million.

I. MEDICARE

Areas of Agreement:

- *Significant Savings -- $124 Billion.* We both agree that significant savings are necessary to sustain the program.

- *We Both Agree That It Is Important to Strengthen the Medicare Trust Fund.* We both have specific Medicare Part A savings and structural savings that extend the solvency of the Trust Fund for at least ten years.

- *Agreement on Providing More Plan Choices.* We both want to offer more plan choices to Medicare beneficiaries. Areas of common ground include: establishment of Preferred Provider Organizations (PPOs), managed care point-of-services options, and provider networks.

Areas of Disagreement:

- *Cuts Far Below Private Sector Growth Rate.* Your cuts to Medicare are excessive; for a much sicker and difficult to manage population, your cuts would constrain Medicare growth per beneficiary to an estimated 15% below private sector growth rates.

- *Increasing Medicare Premiums.* Your proposal would raise Medicare premiums above the current policy of 25% of program costs, increasing premiums for an elderly couple by more than $400 in 2002 alone.

- *Significant Disagreement on Many Structural Changes.* New options must make certain that new plans compete on quality and cost, not by avoiding sicker people who are poor insurance risks. The Administration is concerned that your proposal would segment the Medicare program into plans serving healthy and wealthy beneficiaries and plans serving older, sicker populations.

- *Arbitrary Cap.* Your proposal contains an arbitrary cap that for the first time in 30 years would de-link Medicare financing from the cost of benefits.

- *Medical Savings Accounts.* Your MSA proposal would establish plans with very high deductibles that would attract healthy and wealthy beneficiaries, thereby segmenting Medicare. This would leave traditional Medicare with older and sicker beneficiaries, and according to CBO, would actually increase costs for Medicare.

- *Balance Billing.* Your proposal would allow doctors to charge beyond currently permissible rates, leaving older Americans vulnerable to higher costs and giving doctors incentives to leave the traditional fee-for-service program for the new plan options in which they could charge higher rates.

- *Fraud and Abuse.* Your proposal creates exceptions to anti-kickback rules, limits prohibitions on physician referrals to laboratories in which they have a financial interest, and puts new obstacles in the way of enforcing fraud and abuse laws.

II. MEDICAID

Areas of Agreement:

- *Significant Savings -- $59 Billion*. We both agree that significant savings are necessary to sustain the program.

- *Increased Flexibility For States*. The Governors, the Congress, and the Administration all agree that there should be significantly more flexibility for states in administering the Medicaid program. Both plans repeal the Boren Amendment, the waiver requirement for states to establish managed care plans, and both plans remove other Federal delivery system and payment rules that tie the hands of Governors in administering an efficient Medicaid program.

Areas of Disagreement:

- *Individual Guarantee to Benefits*. The Administration fundamentally disagrees with your plan to eliminate Medicaid and turn it into a block grant. This would eliminate the guarantee of meaningful benefits for millions of Americans with disabilities, pregnant women, poor children and older Americans needing long-term care, while leaving states vulnerable to economic downturns, inflation, and demographic changes.

- *Excessive Cuts.* The Administration believes your Medicaid cuts are excessive, and they would more than triple if States only spend the minimum required.

- *Repeals Federal Enforcement of Nursing Home Quality Standards*. Your proposal would repeal federal enforcement of the nursing home quality standards that have dramatically improved the quality of nursing home care.

- *Repeals Financial Protections*. Your proposal would undermine or repeal financial protections for spouses, families, their homes and farms.

- *Jeopardizes Poor Elderly and Disabled Americans' Access to Medicare.* Your proposal repeals the guarantee that Medicaid mpay low-income older and disabled American's Medicare premiums, deductibles, and copayments, sets aside no block grant funding for Medicare deductibles and copayments, and less than half of what is needed to cover premiums -- just when the Republican proposal increases premiums.

MEDICAID: WHAT IS AT STAKE IN THE BUDGET NEGOTIATIONS

January 10, 1996

THE MEDICAID GUARANTEE OF MEANINGFUL HEALTH BENEFITS

- Republicans are insisting on ending the Medicaid guarantee to meaningful health benefits and replacing it with a deeply underfunded block grant that will deny meaningful health benefits to millions of disabled Americans, pregnant women, poor children, and older Americans in need of nursing home care. The *only* required benefits would be immunizations and restricted family planning, and the depth of the Medicaid cuts could force States to significantly reduce benefits and eligibility.

- President Clinton is standing firm on retaining the guarantee of meaningful Medicaid health benefits for disabled Americans, pregnant women, poor children, and older Americans in need of nursing home care.

DEPTH OF THE CUTS

- Republicans want to cut Federal Medicaid funding to States by up to $117 billion. As a result, funding per person would increase by less than the rate of inflation and about 70% below projected private health care spending growth. Because States would be allowed to cut their spending significantly as well, the total cuts in Medicaid could be more than double the Federal cuts.

- President Clinton's balanced budget achieves $52 billion in savings by capping spending growth per beneficiary, giving States incentives to reduce costs without denying anyone health care coverage.

A BLOCK GRANT THAT LEAVES STATES VULNERABLE

- Republicans are insisting on block granting Medicaid, which will leave States vulnerable to economic downturns, inflation, and natural disasters. States would be responsible for 100% of the additional costs from these circumstances beyond their control.

- President Clinton is standing firm on maintaining the 30-year Federal partnership with States, protecting States from circumstances beyond their control while increasing State flexibility.

FEDERAL NURSING HOME QUALITY STANDARDS

- Republicans want to repeal Federal enforcement of the nursing home quality standards that have dramatically improved the quality of nursing home care. While States may want to maintain the quality of nursing homes, deep Federal Medicaid cuts combined with the elimination of Federal standards and monitoring may lead to their failure to set and enforce adequate quality standards.

- President Clinton's balanced budget retains the current Federal nursing home quality standards and enforcement.

FINANCIAL PROTECTIONS FOR FAMILIES, THEIR HOMES AND FARMS

- Republicans would let States force the adult children of people needing nursing home care to pay for their care, if their income is above the State median income. They would repeal laws that protect families from having to sell their home or family farm in order to qualify for Medicaid, and would repeal the laws that restrict the placing of liens on homes and family farms of Medicaid recipients.

- President Clinton's balanced budget maintains current financial protections.

POOR ELDERLY AND DISABLED AMERICANS' ACCESS TO MEDICARE

- Republicans are insisting on repealing the current guarantee that Medicaid will pay poor older and disabled American's Medicare premiums, deductibles, and copayments. They do not set aside any Medicaid block grant funding for deductibles and copayments, and set aside less than half of the funds needed to cover poor elderly and disabled people's Medicare premiums -- at the same time that they increase Medicare premiums.

- President Clinton's balanced budget retains the guarantee of access to Medicare physician services for poor older and disabled Americans.

SPOUSAL IMPOVERISHMENT PROTECTIONS

- Republicans would undermine protections for spouses of nursing home residents from impoverishment by repealing the guarantee of nursing home coverage, making it more difficult for the Federal government to ensure that States enforce spousal impoverishment protections, and repealing the right of spouses to seek redress in Federal court if they are wrongly denied protection.

- President Clinton's balanced budget retains current spousal impoverishment protections.

MEDICARE: WHAT'S AT STAKE IN THE BUDGET NEGOTIATIONS

January 12, 1995

Republicans put Medicare at risk. Excessive spending cuts -- combined with premium increases and risky policy proposals -- threaten to transform Medicare into a second-class medical system. President Clinton has a more sensible approach -- one that preserves the basic structure of Medicare while expanding choice and preventive benefits, strengthening the trust fund and cracking down on fraud and abuse. The President doesn't gamble with the health of our elderly and disabled citizens.

MAGNITUDE OF CUTS. Republicans cut Medicare far below the private sector rate.

- Republicans insist on excessive cuts that reduce Medicare spending by $168 billion over seven years -- 65% more than the President -- largely to pay for tax cuts for the well-to-do. These cuts, enforced by a rigid budget cap, constrain Medicare spending growth to an unrealistic level -- 20% below the private sector growth rate.

- The President's proposal saves $102 billion through specific policy changes designed to strengthen the Medicare system, not undermine it. The proposal extends the life of the Medicare trust fund through 2011 -- leaving it stronger or as strong as it has been in 19 of the last 20 years. And the proposal permits spending per beneficiary to grow at close to the private sector rate.

PREMIUMS. Republicans force the elderly to pay more in out-of-pocket costs.

- Republicans insist on increasing Part B premiums beyond the current policy level of 25% of program costs -- raising premiums for an elderly couple by more than $400 in 2002, based on the latest CBO figures. This burden -- totalling $30 billion over seven years -- falls on a particularly vulnerable population: *Seventy-five percent of Medicare beneficiaries have incomes below $25,000 per year.*

- The President maintains premiums at current policy levels, keeping premiums at 25% of program costs.

LOW-INCOME MEDICARE PROTECTION. Republicans abolish premium guarantees for the elderly and disabled poor, which could force many to lose physician coverage.

- Republicans effectively eliminate the long-standing provision that guarantees Medicaid coverage of the Medicare premiums, deductibles, and copayments for older and disabled beneficiaries near or below the poverty line. They fail to set aside any Medicaid funding for deductibles and copayments, and set aside less than half of the funds needed to cover the Medicare premiums of poor elderly and disabled people. Hundreds of thousands of poor elderly and disabled Americans could lose funding for their premiums -- at the same time that Republicans want to increase premiums.

- President Clinton preserves the guarantee of coverage for low-income beneficiaries, ensuring that at least 5 million poor elderly and disabled citizens have access to care.

STRUCTURAL FLAWS. Republicans insist on offering untested health care plans, such as Medical Savings Accounts, and dangerous billing practices, called "balance billing," that damage the foundation of the traditional Medicare program.

- **MEDICAL SAVINGS ACCOUNTS (MSAs).** Republicans insist on the immediate adoption of new and untested changes to the Medicare program, such as MSAs, that experts say could harm the Medicare system and increase costs.

    - Medical Savings Accounts appeal only the healthiest beneficiaries -- who are willing to risk joining a plan with a very high deductible -- leaving the sickest and most costly beneficiaries in a weakened fee-for-service program. CBO projects that MSAs will *increase* Medicare costs by more than $4 billion over seven years; Lewin-VHI puts the price tag at $15-20 billion. *MSAs turn fairness upside-down, letting the healthy benefit at the expense of the sick.*

    - The President's proposal expands the range of plans available to beneficiaries to include new managed care options, such as Provider Sponsored Organizations (which are plans organized by groups of physicians or hospitals) and Preferred Provider Organizations (which are network plans that give enrollees the option of receiving services from providers outside the network). The President's new options ensure that Medicare plans compete by offering more affordable, high quality care -- not by cherry picking the healthiest and wealthiest beneficiaries.

- **OVER-CHARGING IN PRIVATE PLANS. Republican proposals permit physicians to charge beneficiaries extra in private Medicare plans, increasing out-of-pocket costs and slowly draining the fee-for-service system of both doctors and dollars.**

    - Republicans allow doctors to charge above the Medicare approved amount -- a practice that is sometimes called "balance billing" -- leaving the elderly vulnerable to higher costs. Balance billing gives doctors in fee-for-service program an incentive to switch to private health care plans, decreasing beneficiaries access to physicians in the traditional program. Moreover, without balance billing protection, only healthy and wealthy beneficiaries will risk joining the new private plans, leaving the fee-for-service program with a larger share of the sickest beneficiaries -- those most costly to insure.

    - The President maintains the current prohibition against balance billing in the new private health care options.

- **MEDIGAP. Republicans retain Medigap rules that effectively lock beneficiaries into private plans.**

  - Republicans do nothing to change Medigap rules that magnify the structural flaws in their plan. After first enticing healthy beneficiaries into Medical Savings Accounts and other private plans, Republicans make sure they never leave: Their proposal continues to let Medigap companies discriminate against beneficiaries trying to switch back to the fee-for-service program on the basis of both age and health status. By reducing access to Medigap coverage, Republicans subtly limit the health care options available to beneficiaries.

  - President Clinton expands the choices available to Medicare beneficiaries, while giving them the freedom to transfer between private plans and the fee-for-service program as their needs and circumstances change. His proposal enacts long-overdue reforms, requiring Medigap companies to hold annual enrollment periods and prohibiting them from discriminating against beneficiaries based on either age or health status. The President's plan, in short, offers genuine choices -- not false ones.

ADDITIONAL REFORMS. Republicans ignore critical reforms proposed by the President that will strengthen Medicare, including new preventive care benefits and aggressive initiatives to crack down on health care fraud.

- **PREVENTIVE CARE.** The Republicans neglect the benefits of preventive care.

  - Even as Republicans increase premiums and out-of-pocket costs, they offer only one new benefit -- coverage of oral nonsteroidal antiestrogen for the treatment of breast cancer.

  - President Clinton's balanced budget extends Medicare coverage to critical preventive services, including annual mammograms, colorectal screening and additional immunizations. It also offers a new respite care benefit for families of beneficiaries with Alzheimer's disease.

- **FRAUD & ABUSE. Republicans retreat from the fight against health care fraud.**

  - Republicans puts new obstacles in the way of enforcing current fraud and abuse laws. For example, they weaken the "self-referral" rules that prevent doctors from receiving "pay-offs" for making referrals. They raise the standard of proof for civil sanctions, making it more difficult for prosecutors to fight fraud. They even create an exemption to the anti-kickback statute for managed care plans.

  - The President's plan, by contrast, introduces aggressive policies to stamp out Medicare waste, fraud, and abuse. It strengthens, rather than weakens, civil sanctions -- increasing the maximum award from $2,000 to $10,000. It maintains current protections against "self-referrals" -- ensuring that profits don't cloud medical judgment. And it expands "Operation Restore Trust" -- the Administration's successful anti-fraud program -- making it nationwide in scope.