MEMORANDUM

TO: Interested Parties October 28, 1996

FROM: Chris Jennings
Jen Klein

SUBJ: Treasury Department's Monthly Report Shows Improvement in the Status of the Medicare HI Trust Fund

---

Earlier today (Monday), the Treasury Department released their monthly report on the financial status of the Medicare HI Trust Fund. In short, the Department concluded that the status of the Trust Fund for the month of September is about $4 billion better than what was previously projected for this time period by the Medicare Trustees in June, and $3.2 billion better that what we projected it would be in the mid-session review in August.

It remains unclear exactly why the Trust Fund projections have declined so much and we are still reviewing the reasons behind it. It is likely to be related to a late provider payment in August that reduced the September liability, decreases in health care inflation and increases in employment -- and thus increases in Medicare payroll contributions. **Having said this, there is still an operating deficit of $4.2 billion -- greater than any deficit in recent years.**

The Republicans on the Hill are trying to use this report to bolster their position that the Trust Fund is getting worse every day and we have done nothing to "save" it. Although the press will inevitably use this as another excuse to hit us a bit, the print media (*NY Times, USA Today, and Washington Post*) seem to be mostly reporting that the real news the Republicans are ignoring is that the Trust Fund seems to be improving.

Our position on the release of this and every monthly Trust Fund report is that no one should read too much into these reports. And no one should use them in an attempt to needlessly scare the elderly into believing that bankruptcy is imminent. With over $125 billion in surplus, it is simply not the case. Monthly reports represent little more than a picture in time and frequently do not reflect overall trends. [More to the point, in the absence of Medicare reforms, the Trust Fund will always -- over time -- get worse; as such, we have chosen to downplay even good news reports].

Attached is a one page set of talking points for your use. Please don't hesitate to call us at 456-5560 with any questions.

STATUS OF THE HOSPITAL INSURANCE TRUST FUND

In September 1996, the Medicare Hospital Insurance (HI) Trust Fund fared better than projected.

- The September Monthly Treasury Statement shows that the HI trust fund is about $4 billion better off than projections by the Medicare Trustees (June) and $3.2 billion better off than estimates by OMB in its Mid-Session Review (August).

In no way should this information be used to scare Medicare's 38 million elderly and disabled into thinking that Medicare will not pay their claims.

- Over $125 billion remains in the Trust Fund. There is no imminent danger that claims will not be paid.

Although the report is encouraging, it does not reduce the need to work together on a bipartisan basis to strengthen the Medicare Trust Fund.

From the start, President Clinton has taken action to strengthen the Medicare trust fund.

- The President's 1993 Economic Plan extended the life of the Trust fund by 3 years -- without a single Republican vote.

- The President's balanced budget guarantees the life of the Medicare trust fund for at least a decade from today.

- The President's proposed Medicare reforms give beneficiaries more choices among private health plans, provide more preventive health care benefits, attack fraud and abuse, and cut the growth of provider payments without raising the Part B premium to 25 percent of program costs.

Q. **What are the reasons behind this decline?**
[USE ONLY IF PRESSED]

A. The reasons for the Trust Fund's improved status are unclear but are likely related to the improved economy and the overall reductions in medical inflation -- still we are reviewing all possible reasons].

MEMORANDUM

September 25, 1996

TO: Distribution

FROM: Chris Jennings and Jen Klein

SUBJ: Monthly Report on State of Medicare Trust Fund

The Department of the Treasury released a monthly report on the state of the Medicare Trust Fund. As expected, outlays exceeded revenues by about $3.3 billion. Republicans, particularly Ways & Means Subcommittee Chairman Thomas, may try to use these numbers to allege our mismanagement of the Trust Fund. Although we have not received any specific criticisms since the release of the report, this issue may be raised during the Presidential debates.

Suggested talking points are attached. Please note that the talking points mirror our response to similar criticisms in the past.

We hope that you find this information helpful. If you have any questions, please call us.

9/24/96 FOR INTERNAL USE ONLY

STATUS OF HOSPITAL INSURANCE TRUST FUND

As anticipated, the Medicare Hospital Insurance (HI) trust fund experienced a cash-flow deficit in august 1996.

- The August Monthly Treasury Statement shows that the HI trust fund had total income of $8.1 billion and total expenditures of $11.4 billion, for a deficit of $3.3 billion.

The status of the HI trust fund balance is in line with the estimates released in this year's Trustees Report and the Mid-Session Review.

In no way should this information be used to scare seniors and the disabled into thinking that Medicare will not pay their claims.

- Over $123 billion remains in the Trust Fund. There is no imminent danger that claims will not be paid.

From the start, President Clinton has taken action to strengthen the Medicare trust fund.

- The President's 1993 Economic Plan extended the life of the Trust Fund by *3 years -- without a single Republican vote.*
- The President's balanced budget guarantees the life of the Medicare trust fund for at least a decade.
- The President's proposed Medicare reforms give seniors more choices among private health plans, attack fraud and abuse, cut the growth of provider payments while holding the Part B premium to 25 percent of program costs.

Monthly Status of Hospital Insurance Trust Fund, FYs 95 and 96

FY 95	Surplus/Deficit	HI Fund	FY 96	Surplus/Deficit	HI Fund
October	-0.260	129.3	October	-1.917	127.6
November	-0.718	128.6	November	-1.236	126.4
December	4.266	132.8	December	3.900	130.3
January	0.577	133.4	January	-0.614	129.7
February	-1.399	132.0	February	-3.151	126.5
March	-2.601	129.4	March	-1.230	125.3
April	4.167	133.6	April	4.685	130.0
May	-2.670	130.9	May	-6.612	123.3
June	3.559	134.5	June	6.766	130.1
July	-0.683	133.8	July	-3.290	126.8
August	-3.153	130.6	August	-3.289	123.5
September	-1.121	129.5	September		
Cumulative Total	-0.036		Cumulative Total	-5.988	

MEDICARE TRUST FUND TALKING POINTS

June 3, 1996

UPCOMING MEDICARE TRUSTEES' REPORT CAN ONLY CONFIRM WHAT WE ALREADY KNOW -- REPUBLICANS SHOULD ACCEPT PRESIDENT CLINTON'S CALL TO BALANCE THE BUDGET AND STRENGTHEN THE MEDICARE TRUST FUND.

- As CBO said in its April 30th Hill testimony, "... *the projected date of insolvency should be viewed not as telling us something new, but confirming what we already know.*"

WE WELCOME REPUBLICANS' CONCERN ABOUT THE TRUST FUND, BUT LONG BEFORE THEY STARTED TALKING ABOUT THE PROBLEM, THE PRESIDENT WAS ACTING TO ADDRESS IT.

- The President's 1993 Economic Plan extended the life of the Trust Fund by *3 years -- without a single Republican vote.*

- The President's Health Care Reform Plan would have extended the life of the Trust Fund by *another 5 years.*

THE PRESIDENT'S BALANCED BUDGET GUARANTEES THE LIFE OF THE TRUST FUND FOR A DECADE -- THE SAME AS THE SENATE REPUBLICAN BUDGET

- In a May 9th letter, June O'Neill states that "CBO estimates that the Administration's proposals would postpone [the insolvency] date to 2005."

ACTION IS NEEDED -- BUT THE ONLY CAUSE FOR ALARM IS THE REPUBLICANS' REFUSAL TO MEET WITH THE PRESIDENT ON BUDGET AND MEDICARE ISSUES.

- **The need for responsible intervention in improve the Trust Fund is real.** The President's plan addresses this need in a responsible way, without imposing devastating provider cuts, increasing beneficiary costs, or enacting structural changes that hurt the program and the people it serves.

- **Over $125 billion remains in the Trust Fund.** While incoming revenues are somewhat less than outgoing payments, the current balance in the Trust Fund means that there is absolutely no danger that claims will not be paid.

- **Reports should not be used irresponsibly.** The upcoming Trust Fund report should not be used to recklessly frighten the 37 million Medicare beneficiaries and their families into thinking that their benefits are in imminent danger. They simply are not.

IT IS TIME TO PUT PARTISAN DIFFERENCES ASIDE AND AGREE ON THE COMMON MEDICARE SAVINGS BOTH REPUBLICAN AND DEMOCRATIC PROPOSALS HAVE.

- We have tens of billions of dollars in common Medicare savings that we could agree on tomorrow to strengthen the Trust Fund. All the Republicans need do is set aside their structural changes that would segment the wealthy and healthy from other beneficiaries and cause Medicare to *"whither on the vine."* (E.G., the Republican Medical Savings Account would actually weaken the Medicare Trust Fund, as it would cost $4 billion.)

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

June E. O'Neill
Director

May 9, 1996

Honorable J. James Exon
Ranking Minority Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Senator:

At your request, the Congressional Budget Office (CBO) has examined the effects of the Administration's budgetary proposals on the Hospital Insurance (HI) trust fund. Under current law, the HI trust find is projected to become insolvent in 2001. CBO estimates that the Administration's proposals would postpone this date to 2005.

Sincerely,

June E. O'Neill

June E. O'Neill

cc: Honorable Pete V. Domenici
Chairman

THE HOME HEALTH TRANSFER AND THE MEDICARE TRUST FUND: THE FACTS

June 3, 1996

DRAFT

FALSE CLAIM: *Without its home health transfer gimmick, the President's budget only extends the life of the Trust Fund by one year.*

THE FACTS: **Not True.**

1. **The President's balanced budget guarantees the life of the Medicare Trust Fund for a decade -- the same as the Senate Republican budget.** The Congressional Budget Office projects that the President's Medicare reforms would extend the life of the Medicare Trust Fund to 2005. The reforms build on the President's 1993 deficit reduction plan, which extended the life of the Trust Fund by 3 years -- *without a single Republican vote.*

2. **The President's budget strengthens the Trust Fund by:**

   a. **Reducing provider payments; and**

   b. **Restoring the pre-1980 law on Part A home health benefits -- This is NOT a gimmick:**

   - Prior to 1980, home health care services unrelated to hospital stays were not financed by the Hospital Insurance (Part A) Program. Only the first 100 home visits after a three-day hospital stay were financed under Part A. All other visits were financed by Part B. This is because Medicare Part A was intended to finance costs related to hospital stays.

   - In 1980, the law was changed and nearly all home health costs were shifted to Part A.

   - The President's proposal simply restores the pre-1980 law because home health care expenditures unrelated to hospital stays should not be financed by the Part A Trust Fund. Shifting home health spending unrelated to hospitalization back to the Part B programs helps extend the life of the Medicare Part A Trust Fund. (This shift will not affect the Part B premiums, coinsurance or deductibles.)

3. **REPUBLICANS ARE BEING HYPOCRITICAL: The 1995 House Republican budget also shifted some home health costs from Part A to Part B.** The House-passed Republican reconciliation bill also transferred certain home health care expenditures from Part A to Part B -- similar to the proposal in the President's balanced budget. *So if Republicans say it's a gimmick, it's a gimmick every Republican in the House voted for.*

4. **President Clinton's budget extends the life of the Trust Fund as long as the Senate Republican budget, but without their $167 billion Medicare cut and without their damaging structural changes.** The President's balanced budget proves the Republican $167 billion Medicare cut and damaging structural changes are not necessary to balance the budget and strengthen the Trust Fund for a decade.

REPUBLICAN BUDGET STILL THREATENS MEDICARE

June 3, 1996

*"No, we don't get rid of it in round one because we don't think it's politically smart....
But we believe it's going to wither on the vine"* -- Newt Gingrich, 10/24/95

REPUBLICANS STILL INSIST ON EXCESSIVE MEDICARE CUTS THAT WOULD MOVE MEDICARE TOWARD SECOND CLASS HEALTH CARE. The Republican budget reduces Medicare spending by $167 billion -- $51 billion or 44% more than CBO scored the President's balanced budget. They could use savings from cutting corporate subsidies and closing tax loopholes to reduce their Medicare cuts -- but instead they use these savings to fund capital gains and other tax cuts for the wealthy.

WHILE HOUSE REPUBLICANS HAVE FINALLY AGREED NOT TO RAISE MEDICARE PREMIUMS, THEY HAVE NOT LOWERED THEIR TOTAL CUTS. Rather than raising costs on beneficiaries directly they now do it indirectly through even deeper cuts in payments to the hospitals and home health providers that serve beneficiaries, jeopardizing quality and access to health services.

- **Extreme Cuts Threaten Viability of Many Hospitals.** Their $167 billion cut could mean hospitals get lower payments tomorrow than today -- even in nominal terms -- and will result in cost-shifting, undermine quality, and threaten the financial viability of many rural and urban hospitals. According to the American Hospital Association, nearly 700 hospitals derive *two-thirds or more* of net patient revenues from Medicare & Medicaid.

- **American Hospital Association and National Association of Children's Hospitals are "gravely concerned about the level of reductions proposed"** by Republicans in Medicare and Medicaid. [May 10, 1996 letter to Chairmen Roth, Archer, and Bliley from ten hospital associations.]

MORE THAN DOLLARS ARE AT STAKE -- THEIR DAMAGING STRUCTURAL CHANGES WOULD FORCE MEDICARE TO "WITHER ON THE VINE." The Republican budget still contains the damaging structural changes that President Clinton vetoed last year. These changes would segment the Medicare population, leaving the traditional program with fewer dollars and sicker beneficiaries.

- MEDICAL SAVINGS ACCOUNTS (MSAs). Republicans insist on the immediate adoption of untested changes to the Medicare program, such as MSAs, that appeal to the healthiest and wealthiest beneficiaries, 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.

  New York Times [11/18/95]: "A hallmark of the [Republican] Medicare legislation is the encouragement of private health plans....But many experts fear a balkanization of healthy and sick....If some experts worry that managed care plans would skim healthy recipients from the conventional Medicare program, many of the large plans are *concerned that the healthy would be skimmed from them by medical savings accounts.*"

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

- **HARD SPENDING CAP.** Republicans impose a hard cap on Medicare spending. If costs increase faster than projected, spending would no longer keep up -- leading to cuts exceeding $167 billion.

  Wall Street Journal: "Republicans also would apply a cap to these services. If health-care costs rose faster than the GOP budget allots, doctors, hospitals and other providers would have to absorb the losses. *That, in turn, could come back to bite the beneficiaries.*" [12/27/95]

- PRESIDENT CLINTON'S BUDGET SHOWS THAT THEIR DEEP CUTS AND DAMAGING STRUCTURAL CHANGES ARE NOT NECESSARY TO BALANCE THE BUDGET AND GUARANTEE THE LIFE OF THE MEDICARE TRUST FUND FOR 10 YEARS.

KEY REPUBLICAN QUOTES ON MEDICARE

Senator Bob Dole: "I was there, fighting the fight, one of twelve, voting against Medicare in 1965 ... because we knew it wouldn't work."

American Conservative Union Speech
10/24/95

Speaker Newt Gingrich: "No, we don't get rid of it in round one because we don't think it's politically smart..... But we believe it's going to wither on the vine."

Blue Cross/Blue Shield Association Speech
10/24/95

Senator D'Amato: "If I had my druthers ... I would have said to my distinguished colleagues, both in the House and in the Senate, 'Don't link this business of tax cuts with fixing this badly flawed system. Put it aside.

Senate Finance Committee
09/26/95

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release June 2, 1996

STATEMENT BY DR. LAURA D'ANDREA TYSON
NATIONAL ECONOMIC ADVISER

Rather than joining President Clinton in passing common savings in Medicare to strengthen the Trust Fund and balance the budget, Speaker Gingrich has chosen to reargue and defend the extreme Medicare cuts and policies in the Republican Reconciliation bill that President Clinton already vetoed and the American people soundly rejected.

Speaker Gingrich should drop the political attacks and look at the facts. He should go back and listen to the many voices that agree that the Republican Medicare cuts and damaging structural changes would -- in his own words -- cause Medicare to "whither on the vine:"

- "We think that cuts of this magnitude call into question our ability to provide the world class medical care." [American Academy of Physicians, October 5, 1995]

- "This legislation...is not in the best interest of patients, communities, and the men and women who care for them. ...the reductions in the conference report will jeopardize the ability of hospitals and health systems to deliver quality care, not just to those who rely on Medicare and Medicaid, but to all Americans." [America Hospital Association, Catholic Health Association, and Voluntary Hospitals of America, and State Hospital Associations from 47 states, November 17, 1995]

- "Four hundred billion dollars in cuts from these two major health care programs that serve older and low-income Americans do not meet the fairness test. Reductions in Medicare called for in the conference report are much more than is necessary to keep the program solvent into the next decade." [American Association of Retired Persons (AARP), November 16, 1995.]

Even under the current Republican plan, Medicare spending would still be cut by $167 billion -- $51 billion or 44% more than CBO scored the President's balanced budget. Their new plan maintains the damaging structural changes in their reconciliation bill that would segment the Medicare population and leave the traditional program with fewer dollars and a sicker pool of beneficiaries.

- "It's impact on hospitals appears worse. ...We are gravely concerned about the level of reductions proposed" by Republicans in Medicare and Medicaid. [American Hospital Association, Federation of American Health Systems, Catholic Health Association, and 7 other national hospital associations, May 10, 1996.]

-30-30-30-

URGENT

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

6/5/96

LEGISLATIVE REFERRAL MEMORANDUM

LRM NO: 4648

FILE NO: 765

Total Page(s): 7

TO: Legislative Liaison Officer - See Distribution below:

FROM: Janet FORSGREN (for) Assistant Director for Legislative Reference

OMB CONTACT: Robert PELLICCI 395-4871 Legislative Assistant's Line: 395-7362
C=US, A=TELEMAIL, P=GOV+EOP, O=OMB, OU1=LRD, S=PELLICCI, G=ROBERT, I=J
pellicci_r@a1.eop.gov

SUBJECT: HHS Proposed Testimony on the financial status of the Medicare trust funds

DEADLINE: 4:30 p.m. Wednesday, June 05,1996

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President.

Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: Hearing is tomorrow morning, June 6th, before the House Committee on Ways and Means. Unless we hear from you by the deadline, your concurrence will be assumed.

DISTRIBUTION LIST:

AGENCIES:
62-LABOR - Robert A. Shapiro - 2022198201
76-National Economic Council - Sonyia Matthews - 2024562174
110-Social Security Administration - Judy Chesser - 2024827148
115-TREASURY - Richard S. Carro - 2026221146

EOP:
Nancy-Ann Min
Chris Jennings
Gene Sperling
Jennifer Klein
Janet Murguia
Joe Minarik
Barry Clendenin
Mark Miller
Carole Kitti
Keith Fontenot
Justine Rodriquez
Elena Kagan
Allison Eydt
Lisa Kountoupes
Alice Shuffield
Mark Mazur
Jim Murr
Janet Forsgren

RESPONSE TO LEGISLATIVE REFERRAL MEMORANDUM

LRM NO: **4648**

FILE NO: **765**

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet.
If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.
You may also respond by:
(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
(2) sending us a memo or letter
Please include the LRM number shown above, and the subject shown below.

TO: Robert PELLICCI 395-4871
Office of Management and Budget
Fax Number: 395-6148
Branch-Wide Line (to reach legislative assistant): 395-7362

FROM: _____ (Date)

_____ (Name)

_____ (Agency)

_____ (Telephone)

SUBJECT: HHS Proposed Testimony on the financial status of the Medicare trust funds

The following is the response of our agency to your request for views on the above-captioned subject:

_____ Concur

_____ No Objection

_____ No Comment

_____ See proposed edits on pages _____

_____ Other: _____

_____ FAX RETURN of ____ pages, attached to this response sheet

DRAFT STATEMENT OF SECRETARY SHALALA
before the Committee on Ways and Means
June 6, 1996

Mr. Chairman, Members of the Committee, thank you for the opportunity to address the Committee on the 1996 Annual Report of the Board of Trustees of the Federal Hospital Insurance (HI) Trust Fund and Supplementary Medical Insurance (SMI) Trust Fund. Each spring, the Medicare Trustees submit their annual report on the status of the Trust Funds to Congress. The report, which was released yesterday, projected that under intermediate assumptions the HI Trust Fund would be depleted in 2001.

We should be careful not to alarm our Medicare beneficiaries. The Trust Fund contained nearly $130 billion in assets at the end of 1995. The balance is currently near an all-time high, and there is no imminent danger that claims will not be paid. There is time for us to act but let me emphasize that we must act now to ensure the solvency of the HI Trust Fund. We are hopeful that we can find common ground with this Committee and with the Congress on Medicare reforms that will strengthen the HI Trust Fund in the short-term, and provide us with sufficient time to carefully consider approaches to preserving the fund's long-term solvency.

Let me remind you that this report is consistent with our three previous reports. In fact, over the past 15 years, the Trustees have projected the date of insolvency to be anywhere from 1987 to 2005, and each year they recommended that Congress take action to protect the HI Trust Fund. Each time, the Congress and the Executive branch have always been able to respond to short-term challenges, improve the short-term longevity of the HI Trust Fund, and ensure continued Medicare protection for beneficiaries.

Summary of the 1996 Report and Recommendations.

Let me begin by describing the HI Trust Fund and the services it supports for Medicare beneficiaries. The HI Trust Fund pays for inpatient hospital care, as well as expenditures for home health services, skilled nursing care, and hospice care. In 1995, the HI Trust Fund paid for $116.4 billion in services for 33 million aged and 4 million disabled beneficiaries.

The HI Trust Fund is financed primarily by payroll taxes. Employees contribute 1.45 percent of wages, and there is a matching contribution by employers. Self-employed individuals contribute 2.9 percent of self-employment income. OBRA 93 removed the ceiling on the amount of earnings that are taxable; consequently, this tax applies to all earnings. The Trust Fund also receives income from interest earnings on its assets, revenue from taxation of Social Security benefits, and income from miscellaneous sources.

Supplemental Medical Insurance (SMI) or Part B covers physician services, along with outpatient hospital services, laboratory services and durable medical equipment. The SMI trust fund is financed by general revenues and premiums paid by enrollees and it covers Part B services. Part B premiums are deducted directly out of the monthly checks of Social Security beneficiaries. In 1996, premiums are $42.50 per month.

While SMI or Part B growth affects the federal budget deficit, unlike the HI Trust Fund, the SMI Trust Fund could never become insolvent. In the 1996 report, the Medicare Trustees note that the financing established for the SMI program for calendar year 1996 is estimated to be sufficient to cover program expenditures and preserve an adequate contingency reserve. However, the Trustees have expressed concern for the financial adequacy of the SMI Trust Fund. The financial adequacy of the SMI Trust Fund is expressed as the extent to which its assets exceed its liabilites for that year. Under intermediate assumptions by December 1996, assets would exceed liabilities by about 25 percent of the following year's outlays.

Medicare Trust Fund expenditures are driven by increases in enrollment, the complexity of medical services, and health care inflation generally. In the future, Trust Fund expenditures are projected to rise more rapidly than Trust Fund revenues. Anticipated increases in the number and complexity of medical services are expected to continue to result in expenditure growth rates in excess of payroll growth. Beginning in 2010, the demographic shift that will occur with the retirement of the baby boom generation is projected to drive the expected imbalance between expenditures and revenues. After that point, a larger proportion of our population will be eligible for Medicare, and a correspondingly smaller percentage will be paying the taxes that support the Trust Fund. Over the 75 year long-range projection period, trust fund income as a percent of taxable payroll remains relatively level, while the expenditure rate rises steadily.

The 1996 Trustees Report projects about 5 years of HI Trust Fund solvency. Unless the Congress acts, the HI Trust Fund will be exhausted in 2001 using the Trustees' intermediate assumptions. These intermediate assumptions represent the Trustees' best estimate of the expected future economic and demographic trends that will affect the financial status of the HI Trust Fund.

There are several reasons why the 1996 projection differs from the 1995 projection. First, actual 1995 Trust Fund experience was somewhat worse than expected, and three main factors, involving Trust Fund expenditures, Trust Fund income, and economic assumptions, contributed to this estimating variation.

(1) Actual expenditures were 3.1 percent greater than the Trustees had projected last year, primarily because hospital patients were somewhat sicker and more costly, and because hospitals billed Medicare more rapidly in 1995 than we had

projected at the outset of last year.

(2) Income to the Trust Fund was 1.2 percent lower than projected, primarily because of slower than expected wage growth and because of our lack of experience in estimating the income resulting from the payroll tax changes made in OBRA 1993.

(3) Each year the Trustees use more current data and update their assumptions as they evaluate the performance and solvency of the HI Trust Fund.

In addition to actual 1995 Trust Fund experience, other factors contributed to our new projection that the long-term financial balance of the Trust Fund will be less favorable than we had projected last year.

(1) Use of skilled nursing facility and home health services is now projected to grow at a faster rate in the future than we had projected last year.

(2) We now project future hospital patients will be somewhat sicker and more costly than previously projected.

(3) We have updated our long range economic and demographic assumptions.

(4) The new 75 year window on which we base our long range projections includes 2070, an additional year of poor performance, but no longer includes 1995, a year of relatively good performance.

Based on our projections, the Trustees make two recommendations. First, we recommend prompt, decisive, effective action to ensure short term HI Trust Fund solvency. Such action is required so that Medicare services continue smoothly, as beneficiaries expect. It also is required to ensure sufficient time for consideration of options to ensure long run Trust Fund solvency.

Our second recommendation is related to Medicare's long term financial concerns. The Trustees recommend the establishment of an advisory group to address long term solvency. All three of the Social Security Trust Funds -- retirement, disability, and health insurance -- are projected to face long term financial losses as the baby boom generation retires. The advisory group recommended by the Trustees will contribute to the development and thoughtful consideration of policy options in response to this unprecedented demographic shift.

<u>The President Has a Plan to Ensure the Short-Term Solvency of the Trust Fund</u>.

Since taking office, the President has worked to improve HI Trust

Fund solvency and has taken concrete action to strengthen Medicare.

The President's 1993 five-year deficit reduction package (OBRA 93) extended the life of the Trust Fund by an additional three years by achieving realistic Medicare savings and by stimulating general growth in the economy. In addition, the President's Health Care Reform Plan would have extended the life of the HI Trust Fund for an additional five years.

This Administration continues its commitment to controlling Medicare costs in the future. As part of his comprehensive plan to balance the Federal budget, the President has proposed $116 billion, as scored by the Congressional Budget Office, in specific policy changes designed to strengthen Medicare. The President's proposal will ensure the life of the HI Trust Fund for about ten years from now, as both our actuaries and CBO have estimated.

To achieve these savings, the Administration's plan modifies Medicare provider payments in a number of ways that promote greater efficiency and make Medicare a more prudent purchaser. Our plan also achieves savings through increased efforts to combat waste, fraud and abuse. Importantly, we would achieve these savings and extend the life of the HI Trust Fund while maintaining and strengthening key protections for the beneficiaries Medicare serves.

The primary savings achieved in the President's proposal are derived from specific provider payment provisions and by shifting the financing of part of the home health benefit to Part B. The plan provides incentives to hospitals for efficiency by constraining updates for hospital operating costs, reimbursing reasonable levels of capital costs, reforming medical education payments, and reforming the rules governing transfers from a hospital to a post-acute care facility. It also reforms payments to home health agencies and skilled nursing facilities by establishing prospective payment systems for these providers.

The Administration plan represents a balanced approach -- one that protects traditional Medicare while expanding choice and preventive benefits. First, our proposal does not impose additional costs on beneficiaries; the plan maintains Part B premiums at 25 percent of program costs. Second, our plan does not contain dangerous changes -- like MSAs that cost money and undermine the HI Trust Fund by encouraging "cherry picking". Third, the Administration also would maintain critical limits on "balance billing," which protect the program's 37 million beneficiaries from excessive charges from providers. Fourth, our plan maintains important protections for low-income Medicare beneficiaries. Fifth, our package expands the range of private plans available under Medicare without

harming the traditional fee-for-service program or shifting new, burdensome cost responsibilities onto beneficiaries. Finally, coverage of key preventive benefits like mammograms are improved under our proposal.

Conclusion

As the Trustees have recommended, action is needed in the short-run to gain sufficient time for an advisory group to make recommendations on approaches to long-term solvency. It would be irresponsible not to take action.

While we have major concerns with elements in the Republican budget proposal that are threatening to the Medicare program and to its beneficiaries, we do acknowledge areas of commonality. We note that CBO has estimated that both the Republican and the Administration's balanced budget proposals would have the effect of extending the HI Trust Fund solvency for about the next decade. It is time to set aside the controversial elements in the competing Medicare proposals to fashion a Medicare package of changes that can be enacted and that can extend the HI Trust Fund sufficiently in the short-term to enable us to face the challenges of the future.

This Administration takes seriously its responsibility to current and future Medicare beneficiaries to ensure the solvency of the HI Trust Fund. Without intervention, the Trust Fund will be exhausted in 5 years. The Trustees Report is a call to action, but it should not be cause for unnecessary alarm to beneficiaries, present or future. We can and must move forward in a responsible, bipartisan manner to quickly enact reasonable Medicare reforms that will address short-term solvency, providing us with sufficient time to carefully consider approaches to preserving Medicare for the long-term.

DRAFT

For Release Upon Delivery
Expected June 6, 1996, at 9:30 a.m.

STATEMENT OF THE HONORABLE ROBERT E. RUBIN
SECRETARY OF THE TREASURY
BEFORE THE COMMITTEE ON WAYS AND MEANS

Mr. Chairman and Members of the Committee:

I am pleased to once again appear before the Ways and Means Committee today in my role as Managing Trustee and Chairman of the Medicare Boards of Trustees. The Boards are required to report annually to the Congress on the financial status of two separate Medicare trust funds -- the Hospital Insurance (or HI) Trust Fund and the Supplementary Medical Insurance (or SMI) Trust Fund.

As you know, and as the trustees have reported for a number of years, this year's reports confirm that the costs of the SMI program continue to rise rapidly and that the HI Trust Fund will be exhausted soon after the turn of the century. In this year's report, we note that today the HI trust fund has a balance of $125 billion, but that it is projected to be insolvent in the year 2001.

This is, obviously, not news to this committee. We provided a similar report a year ago, when the exhaustion date was projected to be 2002, and the year before, when it was projected to be 2001. Secretary Shalala and I also testified before your committee on this subject three months ago. Finally, the Congressional Budget Office produced its own independent projection last month, with an exhaustion date of 2001.

The trustees include the members of the cabinet directly concerned with Social Security and Medicare, plus two members representing the broader public interest. All of the trustees agree with the report.

As we have in the past, we strongly urge prompt enactment of legislation to address the HI Trust Fund shortfall. We note that both the President and the Congress have made proposals that address the issue.

We also note that this is only a first step in the longer-term process of review and reform. There are important changes underway in our health care system. They will affect both the quality and cost of medical care, and they will affect our decisions concerning Medicare. We as trustees have recommended the creation of an advisory group to review these complex issues and help fashion solutions.

From the beginning, this Administration has clearly recognized the importance of

maintaining the solvency of the HI trust fund. The President's 1993 deficit reduction plan, which included Medicare spending cuts, removal of the earnings limit for HI contributions, and increased taxation of OASDI benefits (with the proceeds going to the HI Trust Fund), is partly responsible for the recent decline in growth rates and the increase in revenues which, together, extended the trust fund exhaustion date, at that time, by three years.

Last year, the Administration proposed an additional series of measures to extend the HI trust fund. [will summarize very briefly]

Medicare financing is a complex interaction of demographics and the rapidly rising costs that affect all parts of our health care system. We need to carefully reform Medicare. The Administration believes that the growth of federal health care expenditures, including Medicare, needs to be reduced in order to control the budget. But reducing this growth must be done by carefully weighing trade-offs and reforming these programs in the context of its impact on the health care delivery system. Only such a process will lead to an outcome that best meets the multiplicity of objectives that need to be considered.

The alternative is arbitrary attempts to resolve the financing crisis that may restore solvency to the HI Trust Fund, but will create and intensify other problems. Specifically, we are concerned that deep reductions in Medicare particularly in combination with deep Medicaid cuts may cause cost shifting, which could raise health care costs in the private sector, reduce private insurance coverage, and increase outlays for other government programs.

The Trustees have provided the Congress with early and continued warning. It's time to act. Although the situation has worsened, we still have enough time to fix it right, even if we have to do it in stages, so that we avoid a hasty, unworkable solution that may have to be undone in the future.

The Medicare program merits this type of careful consideration because it is crucial to a large number of our citizens. One of the most important things our country has done over the past 30 years has been to work to reduce poverty and deprivation among senior citizens and disabled persons, and thereby also reduce the burden on and the anxiety of their children. Medicare has effectively provided a reliable source of medical care coverage for aged and disabled Americans. There are few issues of greater concern to working families than the cost of retirement and the problem of providing health care to the elderly.

Financial Status of the Medicare Trust Funds

As noted, the 1996 Trustees report projects the HI Trust Fund will be exhausted in 2001, one year sooner than projected last year. This worsening largely reflects program cost increases.

Over the long term, the 75-year actuarial deficit (interpreted as the amount of payroll tax increase or benefit reduction needed now to balance the trust fund over the next 75 years) was increased from last year's estimate of 3.52 percent to 4.52 percent of payroll.

The increase is largely the result of larger projected increases in the complexity of cases, a more rapid projected growth rate in home health care and skilled nursing facility costs, and the permanent effects of the higher than expected level of spending since the last report. The HI program remains substantially out of long-run actuarial balance, and that problem is not addressed by either of the current Congressional budget resolutions or the Administration's proposal.

The Trustees also continue to project rapid growth in Supplemental Medical Insurance program costs well into the future. Over the next five years, outlays are expected to increase 63 percent in the aggregate and 55 percent per enrollee. During the same period, the program is expected to grow about 28 percent faster than the overall economy.

Combined HI and SMI costs are expected to increase from 2.7 percent of GDP in 1996 to 8.8 percent in 2070 -- more than tripling -- due to anticipated demographic changes and projected increases in costs per beneficiary. Because of this rise in long-term program costs and the expected exhaustion of the HI fund in 2001, the Board of Trustees recommends effective Medicare reform, but again, we believe that this must be done with a careful weighing and balancing of all impacts and all considerations and in the context of health care reform.

Medicare Financing and Health Care Reform

When the Hospital Insurance program faced financing problems in the past, Congress and the Executive Branch have been able to cooperate on making modest changes in the program that slowed the rate of cost increases.

The program has experienced financial difficulty since its inception in 1966 because of rapidly rising hospital costs, higher-than-expected utilization, and program expansion. During the 1990s, program expenditure increases were below those of the previous decade, reflecting a comparatively moderate rise in overall health care inflation and utilization.

The fundamental reason for the rise in Medicare expenditures is the increase in health care costs affecting all parts of the nation's health care system. A dramatic attempt by government to contain Medicare spending in a vacuum -- for example through large reductions in payments to hospitals, will cause significant distortions and inefficiencies elsewhere in the health care system, unless such a reduction is undertaken in the context of overall reform of the health care delivery system.

Much can be done to strengthen the Medicare program. Taking steps to extend health insurance coverage to the uninsured population, and developing, through insurance reform, a competitive health care market will create a more efficient system. This increased efficiency will slow the growth in overall health care spending and provide long-term savings to the Medicare program.

Shouldn't we use examples of what can be done in the Medicare program too.

In closing, the Administration believes it is possible to address the HI Trust Fund problem and the rising costs in the rest of the Medicare program in a thoughtful manner, and produce effective, acceptable solutions that will stand the test of time. Although, we don't have bipartisan agreement on some of the structural changes that many members of the Majority are advocating, we do, nevertheless, have bipartisan agreement on a significant number of Medicare proposals that would strengthen the Part A trust fund. We need to work through those common agreements and develop a bipartisan proposal to address the challenges that the impending insolvency of the HI trust fund has created. We are ready, and we have been from the beginning of this Administration, to work with the Congress to achieve these goals.

I will be happy to answer any questions you may have.

Time to Act to Save Medicare

By Bruce C. Vladeck
Administrator, Health Care Financing Administration

Yesterday's report by the Social Security and Medicare Boards of Trustees points up, once again, the urgency of addressing the short- and long-term needs of the Medicare program. If the current congressional gridlock continues, Medicare's Hospital Insurance trust fund will become insolvent in 2001.

For four years, the Medicare trustees have urged prompt action to shore up the Medicare trust fund. In 1993, President Clinton proposed a package of Medicare changes that extended the solvency of the trust fund for three years. It passed Congress without one Republican vote. In 1994, the President again proposed Medicare changes as part of health care reform but that legislation died in Congress. In 1995 and again in 1996, the President is proposing $124 billion in new Medicare savings to preserve the trust fund well into the next decade.

As part of the President's plan, we propose a series of much-needed reforms in home health care. Those changes would allow us to reduce costs, focus and tighten administration of home health care, and improve quality by targeting services to those who really need them. In doing so, we would also restore a policy that was in effect until 1980 in which short-term home health care was paid for

by Medicare Part A, which is funded out of the trust fund. Long-term home health care was paid for under Medicare Part B -- an outpatient care program supported by monthly premium payments by senior citizens and general revenue funds.

Dp. are calling this a gimmick

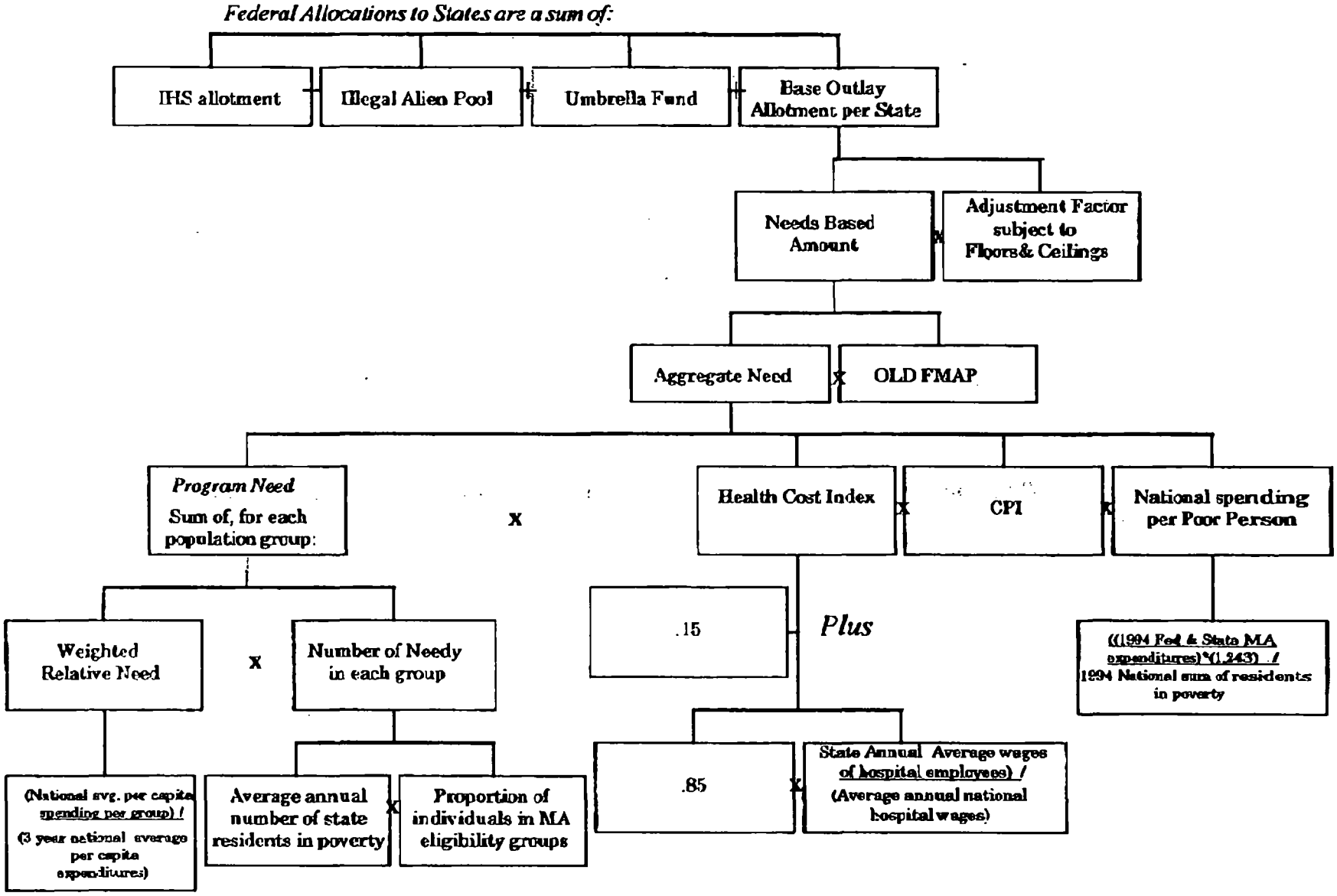
It's interesting to note that a virtually identical proposal was approved last year by the Republican House of Representatives not once but twice by overwhelming margins. Unfortunately, the GOP insisted on attaching that provision to a package of unnecessary and potentially damaging Medicare proposals. That led the President to veto the bill.

agreed upon

Now is the time for partisan politics to end. There are enough common Medicare savings on the table right now ~~to agree on a package~~ to protect the Medicare trust fund into the 21st century. All we need to do is come to the table ~~and agree on them~~.

# # #

Total Spending: Breakout of Base Outlay Allotments Per State Formula.



MEDICARE TRUST FUND TALKING POINTS

June 3, 1996

UPCOMING MEDICARE TRUSTEES' REPORT CAN ONLY CONFIRM WHAT WE ALREADY KNOW -- REPUBLICANS SHOULD ACCEPT PRESIDENT CLINTON'S CALL TO BALANCE THE BUDGET AND STRENGTHEN THE MEDICARE TRUST FUND.

- As CBO said in its April 30th Hill testimony, "... *the projected date of insolvency should be viewed not as telling us something new, but confirming what we already know.*"

WE WELCOME REPUBLICANS' CONCERN ABOUT THE TRUST FUND, BUT LONG BEFORE THEY STARTED TALKING ABOUT THE PROBLEM, THE PRESIDENT WAS ACTING TO ADDRESS IT.

- The President's 1993 Economic Plan extended the life of the Trust Fund by *3 years -- without a single Republican vote.*

- The President's Health Care Reform Plan would have extended the life of the Trust Fund by *another 5 years.*

THE PRESIDENT'S BALANCED BUDGET GUARANTEES THE LIFE OF THE TRUST FUND FOR A DECADE -- THE SAME AS THE SENATE REPUBLICAN BUDGET

- In a May 9th letter, June O'Neill states that "CBO estimates that the Administration's proposals would postpone [the insolvency] date to 2005."

ACTION IS NEEDED -- BUT THE ONLY CAUSE FOR ALARM IS THE REPUBLICANS' REFUSAL TO MEET WITH THE PRESIDENT ON BUDGET AND MEDICARE ISSUES.

- **The need for responsible intervention in improve the Trust Fund is real.** The President's plan addresses this need in a responsible way, without imposing devastating provider cuts, increasing beneficiary costs, or enacting structural changes that hurt the program and the people it serves.

- **Over $125 billion remains in the Trust Fund.** While incoming revenues are somewhat less than outgoing payments, the current balance in the Trust Fund means that there is absolutely no danger that claims will not be paid.

- **Reports should not be used irresponsibly.** The upcoming Trust Fund report should not be used to recklessly frighten the 37 million Medicare beneficiaries and their families into thinking that their benefits are in imminent danger. They simply are not.

IT IS TIME TO PUT PARTISAN DIFFERENCES ASIDE AND AGREE ON THE COMMON MEDICARE SAVINGS BOTH REPUBLICAN AND DEMOCRATIC PROPOSALS HAVE.

- We have tens of billions of dollars in common Medicare savings that we could agree on tomorrow to strengthen the Trust Fund. All the Republicans need do is set aside their structural changes that would segment the wealthy and healthy from other beneficiaries and cause Medicare to *"whither on the vine."* (E.G., the Republican Medical Savings Account would actually weaken the Medicare Trust Fund, as it would cost $4 billion.)

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

June E. O'Neill
Director

May 9, 1996

Honorable J. James Exon
Ranking Minority Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Senator:

At your request, the Congressional Budget Office (CBO) has examined the effects of the Administration's budgetary proposals on the Hospital Insurance (HI) trust fund. Under current law, the HI trust find is projected to become insolvent in 2001. CBO estimates that the Administration's proposals would postpone this date to 2005.

Sincerely,

June E. O'Neill

June E. O'Neill

cc: Honorable Pete V. Domenici
Chairman

THE HOME HEALTH TRANSFER AND THE MEDICARE TRUST FUND: THE FACTS

June 3, 1996

DRAFT

FALSE CLAIM: *Without its home health transfer gimmick, the President's budget only extends the life of the Trust Fund by one year.*

THE FACTS: **Not True.**

1. **The President's balanced budget guarantees the life of the Medicare Trust Fund for a decade -- the same as the Senate Republican budget.** The Congressional Budget Office projects that the President's Medicare reforms would extend the life of the Medicare Trust Fund to 2005. The reforms build on the President's 1993 deficit reduction plan, which extended the life of the Trust Fund by 3 years -- *without a single Republican vote.*

2. **The President's budget strengthens the Trust Fund by:**

   a. **Reducing provider payments; and**

   b. **Restoring the pre-1980 law on Part A home health benefits -- This is NOT a gimmick:**

      - Prior to 1980, home health care services unrelated to hospital stays were not financed by the Hospital Insurance (Part A) Program. Only the first 100 home visits after a three-day hospital stay were financed under Part A. All other visits were financed by Part B. This is because Medicare Part A was intended to finance costs related to hospital stays.

      - In 1980, the law was changed and nearly all home health costs were shifted to Part A.

      - The President's proposal simply restores the pre-1980 law because home health care expenditures unrelated to hospital stays should not be financed by the Part A Trust Fund. Shifting home health spending unrelated to hospitalization back to the Part B programs helps extend the life of the Medicare Part A Trust Fund. (This shift will not affect the Part B premiums, coinsurance or deductibles.)

3. REPUBLICANS ARE BEING HYPOCRITICAL: **The 1995 House Republican budget also shifted some home health costs from Part A to Part B.** The House-passed Republican reconciliation bill also transferred certain home health care expenditures from Part A to Part B -- similar to the proposal in the President's balanced budget. *So if Republicans say it's a gimmick, it's a gimmick every Republican in the House voted for.*

4. **President Clinton's budget extends the life of the Trust Fund as long as the Senate Republican budget, but without their $167 billion Medicare cut and without their damaging structural changes.** The President's balanced budget proves the Republican $167 billion Medicare cut and damaging structural changes are not necessary to balance the budget and strengthen the Trust Fund for a decade.

REPUBLICAN BUDGET STILL THREATENS MEDICARE

June 3, 1996

"No, we don't get rid of it in round one because we don't think it's politically smart....
But we believe it's going to wither on the vine" -- Newt Gingrich, 10/24/95

REPUBLICANS STILL INSIST ON EXCESSIVE MEDICARE CUTS THAT WOULD MOVE MEDICARE TOWARD SECOND CLASS HEALTH CARE. The Republican budget reduces Medicare spending by $167 billion -- $51 billion or 44% more than CBO scored the President's balanced budget. They could use savings from cutting corporate subsidies and closing tax loopholes to reduce their Medicare cuts -- but instead they use these savings to fund capital gains and other tax cuts for the wealthy.

WHILE HOUSE REPUBLICANS HAVE FINALLY AGREED NOT TO RAISE MEDICARE PREMIUMS, THEY HAVE NOT LOWERED THEIR TOTAL CUTS. Rather than raising costs on beneficiaries directly they now do it indirectly through even deeper cuts in payments to the hospitals and home health providers that serve beneficiaries, jeopardizing quality and access to health services.

- **Extreme Cuts Threaten Viability of Many Hospitals.** Their $167 billion cut could mean hospitals get lower payments tomorrow than today -- even in nominal terms -- and will result in cost-shifting, undermine quality, and threaten the financial viability of many rural and urban hospitals. According to the American Hospital Association, nearly 700 hospitals derive *two-thirds or more* of net patient revenues from Medicare & Medicaid.

- **American Hospital Association and National Association of Children's Hospitals are "gravely concerned about the level of reductions proposed"** by Republicans in Medicare and Medicaid. [May 10, 1996 letter to Chairmen Roth, Archer, and Bliley from ten hospital associations.]

MORE THAN DOLLARS ARE AT STAKE -- THEIR DAMAGING STRUCTURAL CHANGES WOULD FORCE MEDICARE TO "WITHER ON THE VINE." The Republican budget still contains the damaging structural changes that President Clinton vetoed last year. These changes would segment the Medicare population, leaving the traditional program with fewer dollars and sicker beneficiaries.

- MEDICAL SAVINGS ACCOUNTS (MSAs). Republicans insist on the immediate adoption of untested changes to the Medicare program, such as MSAs, that appeal to the healthiest and wealthiest beneficiaries, 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.

  New York Times [11/18/95]: "A hallmark of the [Republican] Medicare legislation is the encouragement of private health plans....But many experts fear a balkanization of healthy and sick....If some experts worry that managed care plans would skim healthy recipients from the conventional Medicare program, many of the large plans are *concerned that the healthy would be skimmed from them by medical savings accounts.*"

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

- HARD SPENDING CAP. Republicans impose a hard cap on Medicare spending. If costs increase faster than projected, spending would no longer keep up -- leading to cuts exceeding $167 billion.

  Wall Street Journal: "Republicans also would apply a cap to these services. If health-care costs rose faster than the GOP budget allots, doctors, hospitals and other providers would have to absorb the losses. *That, in turn, could come back to bite the beneficiaries.*" [12/27/95]

- PRESIDENT CLINTON'S BUDGET SHOWS THAT THEIR DEEP CUTS AND DAMAGING STRUCTURAL CHANGES ARE NOT NECESSARY TO BALANCE THE BUDGET AND GUARANTEE THE LIFE OF THE MEDICARE TRUST FUND FOR 10 YEARS.

QUESTION: A recent study by HCFA reported that Medicare costs grew by 11.8 percent in 1994, compared to private health expenditure growth of 4.0 percent. Isn't this evidence that Medicare has continued to grow unchecked by the President?

RESPONSE: **First, a closer reading of the study shows that the real difference between Medicare and private rates is 5.6 percent versus 3.6 percent.**

- The difference is narrower than the raw numbers because you need to take into account differences in benefits, policy changes, and enrollment growth. Medicare covers more high-growth services such as home health than do private plans. If private plans also covered these services, their rates would be higher. Additionally, the 1994 Medicare spending includes a payment adjustment from the new Medicare physician payment system. Third, and most importantly, the number of Medicare beneficiaries grew at almost twice the national population growth. In sharp contrast, private health coverage declined in 1994.

- **Second, the President has made significant advances in reducing Medicare spending growth by (1) passing a budget with real savings, (2) proposing a budget that would reign in costs, and (3) promoting managed care.**

  - **The President's 1993 budget succeeded in both halving the deficit and saving an estimated $56 billion in Medicare — and it passed with no Republican support.** The President's 1993 budget is the only serious Medicare savings proposal passed during the 1990s — and it passed without a single Republican vote. CBO estimated that the President would save $56 billion over 5 years, beginning in 1994. Its real effects occur in subsequent years.

  - **The President has advocated since June of 1995 reducing Medicare spending growth per beneficiary to 5.8 percent — with $124 billion in Federal savings over six years.** The President's Medicare plan offers a balanced approach to bringing Medicare spending growth in line with private growth. In fact, according to CBO data, the President's Medicare total spending per beneficiary will grow at rates below private spending per person.

  - **During the Clinton Administration, Medicare managed care enrollment growth has accelerated.** One of the main reasons for the decline in private rates is the one-time savings attributed to managed care enrollment. Medicare is just catching up: in 1993 Medicare HMO enrollment grew by 6.8 percent, but in 1996 CBO projects it will increase by over 20 percent.

	Projected Growth in Spending per Beneficiary: 1996 - 2002	
	Current Law	President's Plan
Private	7.1%	7.1%
Medicare	7.5%	5.8%

Medicare spending growth from CBO's April 1996 gross baseline and estimates of the President's FY 1997 budget. The private spending per person rates come from CBO's national health expenditure baseline from August 1995

REPUBLICANS USE MEDICARE TRUSTEES REPORT TO JUSTIFY EXTREME MEDICARE CUTS

*Even after Republicans had planned to cut Medicare by $270 billion to pay for $245 billion in tax breaks for the wealthy, RNC Chairman Haley Barbour said he had **"no idea there was a Medicare report."** When the report came out, Barbour said, **"This is manna from heaven!"** Since then, Republicans have been trying to use the Medicare Trustees report to justify their extreme $270 billion cut in Medicare spending.*

Republicans Had Decided To Cut Medicare By $270 Billion Before Medicare Trustees Report Came Out. In February 1995, Republicans decided to cut $270 billion from Medicare to fulfill their promise of a $245 billion tax break for the wealthy and a 7-year balanced budget. [Washington Post, 10/29/95]

GOP Pollster Used Focus Group To Come Up With Term "Preserve" To Describe Medicare Cuts. In March 1995, Speaker Newt Gingrich held a strategy meeting of GOP leaders to discuss new ways of describing their $270 billion Medicare cut. GOP pollster Linda DiVall -- Gingrich's personal campaign pollster -- was in attendance because she had recently conducted focus groups of senior citizens to test rhetorical approaches to Medicare. DiVall told Republicans, "Do not say changing Medicare" because people feared "change" in the popular Medicare program. At a focus group, one senior citizen said he liked the word "preserve" to describe the GOP's Medicare plan. DiVall also promoted the suggestion of another respondent that they call the legislation the Medicare Preservation Act. [Washington Post, 10/29/95]

Pollster Told Republicans Not To Use Words "Cut," "Cap," Or "Freeze" To Describe Their Medicare Cuts. DiVall also told Republican to be "leery" of the words cut, cap and freeze when discussing Medicare because they would help Democrats define the process in negative terms. [Washington Post, 10/29/95]

Barbour First Advised GOP Leaders Not To Deal With Medicare. During February 1995 meetings with Gingrich, Dole, and Budget Committee Chairmen Rep. Kasich (OH), and Sen. Domenici (NM), RNC Chairman Haley Barbour said, "Don't" deal with Medicare in 1995. He advised them to "take it off the table" for at least two years. They did not heed Barbour's advice. [Washington Post, 10/29/95]

After GOP Introduced Plan To Cut Medicare By $270 Billion, Barbour Called Downbeat Medicare Report "Manna From Heaven." When the Medicare Board of Trustees issued their anual report on April 3, 1995, Barbour said he had *"no idea there was a Medicare report."* When the report said that Medicare's hospital trust fund faced bankruptcy by the year 2002, and that its financial condition was "very unfavorable," Barbour took one look at it and declared, *"This is manna from heaven!"* The report was signed by three Cabinet officials in the Clinton administration. [Washington Post, 10/29/95]

In 1995 Dole Bragged About His 1965 Opposition to Medicare. During an October 1995 speech to the American Conservative Union, GOP Presidential candidate Dole said, "I was there, fighting the fight, one of twelve, voting against Medicare in 1965... because we knew it wouldn't work." [Dole ACU Speech, 10/25/95]

In 1995 GOP Speaker Newt Gingrich Said He Believed That Medicare Would "Wither On The Vine." During an October 1995 speech to the Blue Cross/Blue Shield Conference, House Speaker Newt Gingrich said, "Now, we didn't get rid of it (Medicare) in round one because we don't think that that's politically smart and we don't think that's the right way to go through a transition. But we believe it's going to wither on the vine because we think people are voluntarily going to leave it." [Gingrich Speech, 10/25/95]

In 1995 GOP House Majority Leader Armey Voiced His Opposition To Medicare. In July 1995, Dick Armey (TX) said he believed Medicare was a "program I would have no part of in a free world." He said that he, "deeply resents the fact that when I'm 65 I must enroll in Medicare." [Chicago Tribune, 7/11/95]

MEDICARE TRUST FUND TALKING POINTS

June 3, 1996

UPCOMING MEDICARE TRUSTEES' REPORT CAN ONLY CONFIRM WHAT WE ALREADY KNOW -- REPUBLICANS SHOULD ACCEPT PRESIDENT CLINTON'S CALL TO BALANCE THE BUDGET AND STRENGTHEN THE MEDICARE TRUST FUND.

- As CBO said in its April 30th Hill testimony, "... *the projected date of insolvency should be viewed not as telling us something new, but confirming what we already know.*"

WE WELCOME REPUBLICANS' CONCERN ABOUT THE TRUST FUND, BUT LONG BEFORE THEY STARTED TALKING ABOUT THE PROBLEM, THE PRESIDENT WAS ACTING TO ADDRESS IT.

- The President's 1993 Economic Plan extended the life of the Trust Fund by *3 years -- without a single Republican vote.*

- The President's Health Care Reform Plan would have extended the life of the Trust Fund by *another 5 years.*

THE PRESIDENT'S BALANCED BUDGET GUARANTEES THE LIFE OF THE TRUST FUND FOR A DECADE -- THE SAME AS THE SENATE REPUBLICAN BUDGET

- In a May 9th letter, June O'Neill states that "CBO estimates that the Administration's proposals would postpone [the insolvency] date to 2005."

ACTION IS NEEDED -- BUT THE ONLY CAUSE FOR ALARM IS THE REPUBLICANS' REFUSAL TO MEET WITH THE PRESIDENT ON BUDGET AND MEDICARE ISSUES.

- **The need for responsible intervention to improve the Trust Fund is real.** The President's plan addresses this need in a responsible way, without imposing devastating provider cuts, increasing beneficiary costs, or enacting structural changes that hurt the program and the people it serves.

- **Over $125 billion remains in the Trust Fund.** While incoming revenues are somewhat less than outgoing payments, the current balance in the Trust Fund means that there is absolutely no danger that claims will not be paid.

- **Reports should not be used irresponsibly.** The upcoming Trust Fund report should not be used to recklessly frighten the 37 million Medicare beneficiaries and their families into thinking that their benefits are in imminent danger. They simply are not.

IT IS TIME TO PUT PARTISAN DIFFERENCES ASIDE AND AGREE ON THE COMMON MEDICARE SAVINGS BOTH REPUBLICAN AND DEMOCRATIC PROPOSALS HAVE.

- We have tens of billions of dollars in common Medicare savings that we could agree on tomorrow to strengthen the Trust Fund. All the Republicans need do is set aside their structural changes that would segment the wealthy and healthy from other beneficiaries and cause Medicare to *"wither on the vine."* (E.G., the Republican Medical Savings Account would actually weaken the Medicare Trust Fund, as it would cost $4 billion.)

KEY REPUBLICAN QUOTES ON MEDICARE

Senator Bob Dole: "I was there, fighting the fight, one of twelve, voting against Medicare in 1965 ... because we knew it wouldn't work."

American Conservative Union Speech
10/24/95

Speaker Newt Gingrich: "No, we don't get rid of it in round one because we don't think it's politically smart..... But we believe it's going to wither on the vine."

Blue Cross/Blue Shield Association Speech
10/24/95

Senator D'Amato: "If I had my druthers ... I would have said to my distinguished colleagues, both in the House and in the Senate, 'Don't link this business of tax cuts with fixing this badly flawed system. Put it aside.

Senate Finance Committee
09/26/95

REPUBLICAN BUDGET STILL THREATENS MEDICARE

June 3, 1996

"No, we don't get rid of it in round one because we don't think it's politically smart.... But we believe it's going to wither on the vine" -- Newt Gingrich, 10/24/95

REPUBLICANS STILL INSIST ON EXCESSIVE MEDICARE CUTS THAT WOULD MOVE MEDICARE TOWARD SECOND CLASS HEALTH CARE. The Republican budget reduces Medicare spending by $167 billion -- $51 billion or 44% more than CBO scored the President's balanced budget. It would reduce spending by over $1,100 per beneficiary in 2002 -- a 50% greater cut than the President's Medicare savings from the current CBO Medicare baseline.

WHILE HOUSE REPUBLICANS HAVE FINALLY AGREED NOT TO RAISE MEDICARE PREMIUMS, THEY HAVE NOT LOWERED THEIR TOTAL CUTS. Rather than raising costs on beneficiaries directly they now do it indirectly through even deeper cuts in payments to the hospitals and home health providers that serve beneficiaries, jeopardizing quality and access to health services.

- **Extreme Cuts Threaten Viability of Many Hospitals.** Their $167 billion cut could mean hospitals get lower payments tomorrow than today--even in nominal terms--and will result in cost-shifting, undermine quality, and threaten the financial viability of many rural and urban hospitals. According to the American Hospital Association, nearly 700 hospitals derive *67% or more* of net patient revenues from Medicare & Medicaid.

- **American Hospital Association and National Association of Children's Hospitals are "gravely concerned about the level of reductions proposed"** by Republicans in Medicare and Medicaid. [May 10, 1996 letter to Chairmen Roth, Archer, and Bliley from ten hospital associations.]

MORE THAN DOLLARS ARE AT STAKE -- THEIR DAMAGING STRUCTURAL CHANGES WOULD FORCE MEDICARE TO "WITHER ON THE VINE." The Republican budget still contains the damaging structural changes that President Clinton vetoed last year. These changes would segment the Medicare population, leaving the traditional program with fewer dollars and sicker beneficiaries.

- **MEDICAL SAVINGS ACCOUNTS (MSAs).** Republicans insist on the immediate adoption of untested changes to the Medicare program, such as MSAs, that appeal to the healthiest and wealthiest beneficiaries, 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.

  > ***New York Times*** [11/18/95] "A hallmark of the [Republican] Medicare legislation is the encouragement of private health plans....But many experts fear a balkanization of healthy and sick....If some experts worry that managed care plans would skim healthy recipients from the conventional Medicare program, many of the large plans are *concerned that the healthy would be skimmed from them by medical savings accounts.*"

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

- **HARD SPENDING CAP.** Republicans impose a hard cap on Medicare spending. If costs increase faster than projected, spending would no longer keep up -- leading to cuts exceeding $167 billion.

  > ***Wall Street Journal:*** "Republicans also would apply a cap to these services. If health-care costs rose faster than the GOP budget allots, doctors, hospitals and other providers would have to absorb the losses. *That, in turn, could come back to bite the beneficiaries.*" [12/27/95]

- **PRESIDENT CLINTON'S BUDGET SHOWS THAT THEIR DEEP CUTS AND DAMAGING STRUCTURAL CHANGES ARE NOT NECESSARY TO BALANCE THE BUDGET AND GUARANTEE THE LIFE OF THE MEDICARE TRUST FUND FOR 10 YEARS.**

THE HOME HEALTH TRANSFER AND THE MEDICARE TRUST FUND: THE FACTS
June 3, 1996

FALSE CLAIM: *Without its home health transfer gimmick, the President's budget only extends the life of the Trust Fund by one year.*

THE FACTS: **Not True.**

1. **The President's balanced budget guarantees the life of the Medicare Trust Fund for a decade -- the same as the Senate Republican budget.** The Congressional Budget Office projects that the President's Medicare reforms would extend the life of the Medicare Trust Fund to 2005. The reforms build on the President's 1993 deficit reduction plan, which extended the life of the Trust Fund by 3 years -- *without a single Republican vote.*

2. **The President's budget strengthens the Trust Fund by:**

   a. **Reducing provider payments; and**

   b. **Restoring the pre-1980 law on Part A home health benefits -- This is NOT a gimmick:**

      - Prior to 1980, home health care services unrelated to hospital stays were not financed by the Hospital Insurance (Part A) Program. Only the first 100 home visits after a three-day hospital stay were financed under Part A. All other visits were financed by Part B. This is because Medicare Part A was intended to finance costs related to hospital stays.

      - In 1980, the law was changed and nearly all home health costs were shifted to Part A.
      - The President's proposal simply restores the pre-1980 law because home health care expenditures unrelated to hospital stays should not be financed by the Part A Trust Fund. Shifting home health spending unrelated to hospitalization back to the Part B programs helps extend the life of the Medicare Part A Trust Fund. (This shift will not affect the Part B premiums, coinsurance or deductibles.)

3. **REPUBLICANS ARE BEING HYPOCRITICAL: The 1995 House Republican budget also shifted some home health costs from Part A to Part B.** The House-passed Republican reconciliation bill also transferred certain home health care expenditures from Part A to Part B -- similar to the proposal in the President's balanced budget. *So if Republicans say it's a gimmick, it's a gimmick every Republican in the House voted for.*

4. **President Clinton's budget extends the life of the Trust Fund as long as the Senate Republican budget, but without their $167 billion Medicare cut and without their damaging structural changes.** The President's balanced budget proves the Republican $167 billion Medicare cut and damaging structural changes are not necessary to balance the budget and strengthen the Trust Fund for a decade.

THE REPUBLICAN VOTING RECORD ON MEDICARE

Voting FOR Deep Medicare Cuts and AGAINST Bipartisan Reforms To Extend the Life of the Trust Fund

A Special Report from the House Democratic Policy Committee
Richard A. Gephardt, Chair

June 4, 1996

It has been announced that the Medicare Trustees Report for 1996 will be released on Wednesday, June 5.

Congressional Republicans are already gearing up to, once again, distort the issues surrounding the Medicare Trustees Report in order to attempt to justify their extreme and damaging cuts in the Medicare program – just as they did last year.

This blatant attempt by the GOP to mislead and scare the American public regarding the solvency of the Trust Fund raises the question of why, over the last 18 months, Congressional Republicans have refused to cooperate with President Clinton and Congressional Democrats to make responsible adjustments to Medicare and extend the solvency of the Trust Fund.

Instead, over the last 18 months, Congressional Republicans have repeatedly voted FOR deep cuts in the Medicare program in order to pay for their massive tax cuts for the wealthy and AGAINST bipartisan reforms that would extend the solvency of the Trust Fund for about another ten years.

Specifically, there have been 12 votes over the last 18 months in which GOP Members of the House have insisted on their extreme Medicare provisions.

Following is an overview of these 12 votes.

Vote # 1 -- May 18, 1995 – Voting For $288 BILLION in Medicare Cuts to Pay For $345 BILLION in Tax Cuts, Targeted to the Wealthy

On May 18, 1995, 230 House Republicans voted for the adoption of H.Con.Res. 67, GOP Budget Resolution for FY 1996. This GOP budget resolution called for $288 BILLION in cuts in the Medicare program over seven years – in order to pay for $345 BILLION in tax cuts – aimed mainly at the wealthy.

The GOP Medicare cuts of $288 BILLION were more than three times larger than the $90 BILLION in Medicare cuts that the Medicare Trustees stated were necessary to extend the solvency of the Trust Fund through 2006. Indeed, the GOP Medicare cuts in the budget resolution were so deep not to shore up the Medicare Trust Fund but instead to pay for the massive GOP package of $345 BILLION in tax cuts targeted to the wealthy.

The GOP tax cut package of $345 BILLION was the "Contract with America" tax cut package first passed by the House on April 5, 1995 (H.R. 1215). According to the Treasury Department, 52% of the tax cuts went to the top 12% of American households -- those making over $100,000. Indeed, under the GOP tax cut package, the average tax cut for the top 1% of households – those making over $350,000 a year – was $20,000 a year!

The deep GOP Medicare cuts of $288 BILLION over seven years would have fundamentally undermined the current Medicare program. Among other effects, the deep GOP cuts would have doubled the monthly Medicare Part B premium paid by all Medicare beneficiaries, drastically reduced the reimbursement paid to providers under the Medicare program (thereby, for example, endangering the existence of hundreds of hospitals across the country), and jeopardized the quality of health care available to seniors under their "transformed" Medicare system.

Vote #2 – June 29, 1995 – Voting For $270 BILLION in Medicare Cuts to Pay for $245 BILLION in Tax Cuts, Targeted to the Wealthy

On June 29, 1995, 231 House Republicans voted for adoption of the conference report on H.Con.Res. 67, GOP Budget Resolution for FY 1996. This GOP conference report called for $270 BILLION in cuts in the Medicare program over seven years -- in order to pay for $245 BILLION in tax cuts targeted primarily on the wealthy.

Hence, once again, the GOP was voting for damaging Medicare cuts to pay for their tax cuts for the rich. Senate Republicans had succeeded in the conference committee in getting the conferees to scale back the "Contract with America" package of $345 BILLION in tax cuts to a package of tax cuts totaling $245 BILLION. This tax cut package – just like the "Contract with America" package – was still targeted to the wealthy.

However, the Senate Republicans did not succeed in significantly scaling back the Medicare cuts that had been endorsed by the House GOP – only scaling the cuts back from $288 BILLION to $270 BILLION over seven years, three times larger than the $90 BILLION in Medicare cuts that the Medicare Trustees stated were necessary to extend the solvency of the Trust Fund through 2006. The $270 BILLION in GOP Medicare cuts would still have the same devastating impact on the Medicare program – including increasing seniors' out-of-pocket costs for health care and jeopardizing the quality of care available to seniors – as the original $288 BILLION in cuts.

Vote #3 – October 19, 1995 – Voting Against Bipartisan Reforms That Would Extend Trust Fund Solvency Through 2006

On October 19, 1995, 233 House Republicans voted against a substitute offered by Rep. Gibbons to H.R. 2425, GOP Medicare Revisions Act. The Gibbons substitute contained $90 BILLION in Medicare reforms over seven years – reforms that represented common ground between Democratic and Republican Medicare proposals.

The Congressional Budget Office projected that the Gibbons substitute would extend the solvency of the Trust Fund through 2006 – exactly as long as the GOP balanced budget plan. (One reason that the Gibbons substitute extended the life of the Trust Fund exactly

as long as the GOP plan, even though the GOP plan contained much deeper cuts in the Medicare program, is that the GOP budget plan also included a repeal of the 1993 increase in Social Security subject to tax for the wealthiest 13% of Social Security beneficiaries – money that, under the 1993 Act, is dedicated to the Medicare Trust Fund.)

The reforms in the Medicare program – agreeable to both political parties – contained in the Gibbons substitute included such provisions as those making various reforms in Medicare reimbursement for hospital services; provisions to enhance the prevention, detection, and prosecution of Medicare fraud and abuse; and various reforms in Medicare reimbursement for home health services.

Hence, way back in October 1995, Congressional Republicans rejected an opportunity to reach agreement with Congressional Democrats on $90 BILLION in Medicare savings that would have extended the solvency of the Trust Fund through 2006.

Vote #4 – October 19, 1995 – Voting Against Protecting Medicare Beneficiaries from Increased Out-of-Pocket Costs

On October 19, 1995, 233 House Republicans voted against a motion offered by Rep. Gephardt to recommit H.R. 2425, GOP Medicare Revisions Act, to the House Ways and Means Committee with instructions to report it back with an amendment that removed the increase in the monthly Medicare Part B premium paid by all Medicare beneficiaries.

The GOP Medicare bill doubled the Medicare Part B premium -- from $46.10 in 1995 to about $89 in 2002. Compared to the much smaller increases that would have occurred under current law, the GOP bill increased the Medicare premium by $440 per couple per year.

On this vote, the GOP once again endorsed their deep Medicare cuts – instead of working with Congressional Democrats to moderate the GOP Medicare plan in order to protect seniors and reach common ground. Again, the GOP Medicare cuts were only as deep as they were in order to finance their massive tax cut package for the wealthy.

Vote #5 – October 19, 1995 – Voting For $270 BILLION in Medicare Cuts -- Once Again

On October 19, 1995, 227 House Republicans voted for the passage of H.R. 2425, GOP Medicare Revisions Act. The GOP Medicare bill contained the $270 BILLION in deep, damaging Medicare cuts that had been called for in the conference report on the GOP budget resolution (see Vote #2 above).

Hence, once again, the GOP voted for their radical plan to overhaul Medicare and cut it

back dramatically. The GOP bill – with its $270 BILLION in reductions in the Medicare program over seven years – would have cut outlays for the Medicare program by 20% by the year 2002 below the amount CBO estimates is necessary to maintain current services.

Vote #6 -- October 26, 1995 – Voting Against Amending GOP Budget Bill to Protect Health Care for Seniors & Eliminate Tax Cuts Favoring the Wealthy

On October 26, 1995, 232 House Republicans voted against a motion offered by Rep. Gephardt to recommit H.R. 2491, GOP Budget Reconciliation Act for FY 1996, to the House Ways and Means Committee with instructions to report it back with an amendment to protect the health care and income security of seniors and eliminate the tax cuts contained in the bill that favor the wealthy.

Hence, once again, on this vote, the GOP voted to insist on their generous tax cut package for the wealthy – which required them to also insist on their deep cuts in Medicare to pay for this generous tax cut package. Once again, they resisted an opportunity to find middle ground with Congressional Democrats on moderating the GOP Medicare overhaul.

Vote #7 – October 26, 1995 -- Voting For $270 BILLION in Medicare Cuts to Pay For $245 BILLION in Tax Cuts, Targeted to the Wealthy – Once Again

On October 26, 1995, 223 House Republicans voted for passage of H.R. 2491, GOP Budget Reconciliation Act for FY 1996, which included both the drastic $270 BILLION in GOP Medicare cuts (which had also been included in H.R. 2425) and $245 BILLION in GOP tax cuts targeted to the wealthy.

The GOP had first passed the Medicare cuts separately (H.R. 2425) – without the tax cuts and other provisions of their balanced budget plan – in order to argue that the Medicare cuts had nothing to do with their tax cut package (see Vote #5 above).

However, their attempted subterfuge was unmasked on October 26, when the GOP brought to the House Floor H.R. 2491, their seven-year balanced budget bill, which incorporated all of the provisions of their previously-passed Medicare bill. The GOP clearly had to incorporate their $270 BILLION in Medicare cuts into their overall budget bill -- because the GOP had no other source for paying for their $245 BILLION package of generous tax cuts for the wealthiest Americans. Hence, the GOP Medicare cuts and GOP tax cuts had been reunited back into one bill.

Like the "Contract with America" package of $345 BILLION in tax cuts, the scaled-back GOP package of $245 BILLION in tax cuts was equally targeted to the wealthy. According

to the Treasury Department, 48% of the tax cuts went to the top 12% of American households – those making over $100,000. Indeed, under the GOP tax cut package, the average tax cut for the top 1% of households – those making over $350,000 a year – was $8,500 a year!

Vote #8 – October 30, 1995 -- Voting Against Amending GOP Budget Bill to Protect Health Care for Seniors & Minimize Tax Cuts Favoring the Wealthy

On October 30, 1995, 218 House Republicans voted against a motion offered by Rep. Sabo to instruct the House conferees on H.R. 2491, GOP Budget Reconciliation Act for FY 1996, to protect health care and income security for seniors, avoid increasing the number of Americans who lack access to health care, and minimize tax cuts for the wealthy.

Hence, once again, on this vote, the GOP voted to insist on their generous tax cut package for the wealthy – which required them to also insist on their deep cuts in Medicare to pay for this generous tax cut package. Once again, they resisted an opportunity to find middle ground with Congressional Democrats on moderating the GOP Medicare overhaul.

Vote #9 – November 15, 1995 -- Voting Against Prohibiting Cuts in Medicare That Reduce the Quality of Care and Prohibiting Tax Cuts Until There Is A Balanced Budget

On November 15, 1995, 232 House Republicans voted against a motion offered by Rep. Obey to recommit H.J.Res. 122, Continuing Appropriations for FY 1996, to the Appropriations Committee with instructions to report it back with an amendment to the provisions requiring a balanced budget in seven years to prohibit cuts in Medicare that would reduce the quality of care for senior citizens, prohibit reductions in education spending, and prohibit tax cuts until there is a balanced budget.

And hence, once again, on this vote, the GOP voted to insist on their generous tax cut package for the wealthy – which required them to also insist on their deep cuts in Medicare to pay for this generous tax cut package.

Vote #10 – November 17, 1995 -- Voting For $270 BILLION In Medicare Cuts to Pay for $245 BILLION in Tax Cuts, Targeted to the Wealthy -- Once Again

On November 17, 1995, 232 House Republicans voted for adoption of the conference report on H.R. 2491, GOP Budget Reconciliation Act for FY 1996, which, like the House-passed version of the bill, included both the drastic $270 BILLION in GOP Medicare cuts

and $245 BILLION in GOP tax cuts targeted to the wealthy.

The issues on this vote were identical to those on passing the House version of the GOP budget reconciliation bill. (See Vote # 7 above.)

Vote #11 – May 16, 1996 – Voting Against Bipartisan Reforms That Would Extend Trust Fund Solvency Through 2005

On May 18, 1996, 225 House Republicans voted against a substitute offered by Rep. Sabo to H.Con.Res. 178, GOP Budget Resolution for FY 1997. The Sabo substitute contained President Clinton's budget for FY 1997, as re-estimated by the Congressional Budget Office. The Clinton budget contained $116 BILLION in Medicare reforms (as re-estimated by CBO) over seven years – reforms that represented common ground between the Democratic and Republican Medicare proposals.

The Congressional Budget Office has projected that the Clinton budget, as re-estimated by CBO, would extend the solvency of the Trust Fund through 2005 – which is very similar to the GOP version of the FY 1997 budget resolution, which would extend the solvency of the Trust Fund through 2006. (One reason that the Sabo substitute extends the life of the Trust Fund for about as long as the GOP plan, even though the GOP plan contains much deeper cuts in the Medicare program, is that the GOP budget plan also includes a repeal of the 1993 increase in Social Security subject to tax for the wealthiest 13% of Social Security beneficiaries -- money that, under the 1993 Act, is dedicated to the Medicare Trust Fund.)

The reforms in the Medicare program – agreeable to both political parties – contained in the Sabo substitute included such provisions as those making various reforms in Medicare reimbursement for hospital services; provisions to enhance the prevention, detection, and prosecution of Medicare fraud and abuse; and various reforms in Medicare reimbursement for home health services.

Hence, once again, Congressional Republicans have rejected an opportunity to reach agreement with Congressional Democrats on $116 BILLION in Medicare savings that would have extended the solvency of the Trust Fund through 2005.

Vote #12 -- May 16, 1996 – Voting For $168 BILLION In Medicare Cuts to Pay for $176 BILLION in Tax Cuts, With Much Going to Wealthy

Finally, on May 18, 1995, 221 House Republicans voted for adoption of H.Con.Res. 176, GOP Budget Resolution for FY 1997. The GOP budget resolution called for $168 BILLION in cuts in the Medicare program over six years – in order to pay for $176 BILLION in tax cuts, much of which would go to the wealthy.

Although these Medicare cuts seem somewhat smaller than the GOP Medicare cuts proposed in 1995, in fact, the GOP Medicare plan is essentially the same as last year's GOP Medicare plan. The GOP policies to drastically restructure and substantially cut back on the Medicare program remain the same.

The GOP Medicare cuts appear smaller primarily for two reasons: 1) the Medicare cuts are now for six years, instead of seven years; and 2) the Congressional Budget Office has changed its estimate of the cost of maintaining Medicare under current law, which has the effect of reducing the estimate of the savings generated by the same GOP Medicare policies.

Chairman Kasich and the other Republican Members of the House Budget Committee, in the materials they distributed describing the assumptions of the House version of the GOP budget resolution, made clear that the House resolution is calling for a total package of $176 BILLION in tax cuts this year – including a number of the tax cuts for businesses and wealthy individuals that the GOP had passed in 1995. This revised tax cut package would include not only the $500-per-child tax credit, but also such items as a drastic cut in capital gains tax rates and reductions in the Alternative Minimum Tax paid by corporations and wealthy individuals.

Hence, one more time, Congressional Republicans have voted for drastic cutbacks in the Medicare program in order to pay for their generous tax cut package for the wealthy.

NEWS FROM THE HOUSE DEMOCRATIC LEADER

For Immediate Release:
Tuesday, June 4, 1996

Democratic Leader Richard A. Gephardt
H-204, U.S. Capitol

Statement By House Democratic Leader Richard A. Gephardt On Republican Medicare Cuts In The 104th Congress

"We're here today for a simple reason. As we await tomorrow's Medicare Trustees Report -- and as we steel ourselves for more Republican hysteria about their efforts to "save" Medicare -- it's time to put aside the rhetoric, and focus on the record.

"We're issuing a report that chronicles the Republicans' votes against Medicare throughout this Congress. And it leads to one inescapable conclusion: Newt Gingrich and Bob Dole have never met a Medicare cut they didn't like. Their goal has been to raid Medicare, not to save it -- to lavish more tax breaks on the very people who don't need them.

"Bob Dole brags about casting his first votes against Medicare when most of us were still wearing knee-pants. Newt Gingrich said last year that under his plan, Medicare would "wither on the vine." Then they tell us with a straight face that they're really saving Medicare by slashing it to pay for tax cuts -- proving that they're a lot better at stand-up comedy than they are at public policy.

"The future of Medicare is no laughing matter. This Wednesday, the Medicare Trustees will confirm what we've known all along -- that we need a real, bipartisan solution to Medicare -- the kind we could have had last year when Democrats put a serious plan on the table.

"Instead, the Gingrich-Dole troops voted 12 separate times against Medicare since taking control of Congress. Think about it -- a dozen votes to destroy Medicare. That's hardly what the American people voted for in 1994.

"According to press reports last year, the Republicans hadn't even heard of the Trustees Report until they needed a way to justify their Medicare cuts to pay for tax cuts for the wealthy. So we can expect even more mock concern when the new Trustees Report comes out tomorrow. But the truth is, every time Democrats have really done something about the Medicare problem in recent years -- including times when the program was worse off than it is today -- Republicans were missing in action.

"They even have the audacity to claim that they're not really cutting Medicare, since the absolute dollar amounts increase under their plan. What they fail to point out is that this is before we account for inflation, new and expensive medical technology, and the aging of the population. Because of these factors, the Republicans would force Medicare to grow much more slowly than private health care plans -- meaning that seniors on Medicare would be stuck in second-rate plans that offer worse health care than they have today. Regardless of Beltway jargon, that can only be considered a cut in real people's lives.

"The record is clear. It's time for Newt Gingrich and Bob Dole to renounce their trickle-down tax cuts, and work with us toward a real and reasonable solution to the Medicare problem."

# # #

CONTACT: Laura Nichols/Dan Sallick (202) 225-0100

Jen K.

May 9, 1996

TO: Distribution

FROM: Chris Jennings, Jennifer Klein

RE: Medicare Trust Fund

Attached is letter from CBO which estimates that the President's budget proposal would extend the life of the Trust Fund to 2005. We stand by our projections that the President's plan would extend the life of the Trust Fund ten years from today (2006).

Regardless, CBO's estimate confirms that the President's proposal strengthens the Trust Fund for far more than one year which Republicans have claimed.

I hope you find this information useful. Please feel free to call me at 6-5560 with any questions.

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

June E. O'Neill
Director

May 9, 1996

Honorable J. James Exon
Ranking Minority Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Senator:

At your request, the Congressional Budget Office (CBO) has examined the effects of the Administration's budgetary proposals on the Hospital Insurance (HI) trust fund. Under current law, the HI trust find is projected to become insolvent in 2001. CBO estimates that the Administration's proposals would postpone this date to 2005.

Sincerely,

June E. O'Neill

cc: Honorable Pete V. Domenici
Chairman

FALSE CLAIM AND THE FACTS ON HOW LONG THE PRESIDENT'S BUDGET EXTENDS THE LIFE OF THE MEDICARE TRUST FUND

May 9, 1996

FALSE CLAIM: *Without its gimmicks, the President's budget only extends the life of the Trust Fund by one year.*

THE FACTS: **Not True.**

1. **The President's balanced budget guarantees the life of the Medicare Trust Fund for a decade -- the same as the Senate Republican budget.** The President's budget would make the Trust Fund as strong as its been in 9 of the last 14 Trustees' reports. It builds on the President's 1993 deficit reduction plan, which extended the life of the Trust Fund by 3 years -- *without a single Republican vote.*

2. **The President's budget strengthens the Trust Fund by:**

   a. **Moderately reducing provider payments; and**

   b. **Restoring the pre-1980 law on Part A home health benefits -- This is NOT a gimmick:**

      - Prior to 1980, home health care services unrelated to hospital stays were not financed by the Hospital Insurance (Part A) Program. Only the first 100 home visits after a three-day hospital stay were financed under Part A. All other visits were financed by Part B. This is because Medicare Part A was intended to finance costs related to hospital stays.

      - In 1980, the law was changed and nearly all home health costs were shifted to Part A.

      - The President's proposal simply restores the pre-1980 law because home health care expenditures unrelated to hospital stays should not be financed by the Part A Trust Fund. Shifting home health spending unrelated to hospitalization back to the Part B programs helps extend the life of the Medicare Part A Trust Fund. (This shift will not affect the Part B premiums, coinsurance or deductibles.)

3. REPUBLICANS ARE BEING HYPOCRITICAL: **The 1995 House Republican budget also shifted some home health costs from Part A to Part B.** The House-passed Republican reconciliation bill also transferred certain home health care expenditures from Part A to Part B -- similar to the proposal in the President's balanced budget. *So if Republicans say it's a gimmick, it's a gimmick every Republican in the House voted for.*

4. **President Clinton's budget extends the life of the Trust Fund as long as the Senate Republican budget, but without their $167 billion Medicare cut and without their damaging structural changes.** The President's balanced budget proves the Republican $167 billion Medicare cut and damaging structural changes are not necessary to balance the budget and strengthen the Trust Fund for a decade.

MEDICARE TRUST FUND TALKING POINTS

May 9, 1996

NEW CBO AND TREASURY ESTIMATES CONFIRM WHAT WE ALREADY KNEW – REPUBLICANS SHOULD ACCEPT PRESIDENT CLINTON'S CALL TO BALANCE THE BUDGET AND STRENGTHEN THE MEDICARE TRUST FUND.

- The latest CBO and Treasury reports on the Medicare Trust Fund simply confirm that we need to balance the budget and strengthen Medicare. As CBO said in its April 30th testimony, "*... the projected date of insolvency should be viewed not as telling us something new, but confirming what we already know.*"

THE PRESIDENT'S BALANCED BUDGET GUARANTEES THE LIFE OF THE MEDICARE TRUST FUND FOR A DECADE – THE SAME AS THE SENATE REPUBLICAN BUDGET. The President's balanced budget proves the Republican $167 billion Medicare cut and damaging structural changes are not necessary to balance the budget and strengthen the Trust Fund for a decade. Republicans are using Medicare to pay for tax cuts targeted at the wealthy.

- The Republican budget reduces Medicare spending by $167 billion -- $51 billion or 44% more than CBO scored the President's balanced budget. Republicans could use savings from cutting corporate subsidies and closing tax loopholes to reduce their Medicare cuts -- but instead they use these savings to fund capital gains and other tax cuts for the wealthy.

ACTION IS NEEDED – BUT THE ONLY CAUSE FOR ALARM IS THE REPUBLICANS' REFUSAL TO MEET WITH THE PRESIDENT TO STRENGTHEN THE TRUST FUND AND ALANCE THE BUDGET.

- **Over $120 Billion remains in the Trust Fund.** There is no imminent danger that claims will not be paid.

- **Although the Trust Fund did not perform as well as projected in 1995, the difference between the actual and projected performance was within the typical margin of error,** and has been incorporated into budget projections. The Trust Fund's balance was affected by hospital admission increases, hospitals' treating sicker and more expensive patients and billing at faster rates, and increased use of home health and nursing home services.

- **Monthly fluctuations in the Trust Fund balance are normal.** The Trust Fund's balance fluctuates up and down from month to month based on the timing of payroll revenue collection, quarterly interest payments, and payments for services. The Treasury reports on the Fund's balance in a report sent to every Member of Congress each month.

FROM THE START, PRESIDENT CLINTON HAS TAKEN ACTION TO STRENGTHEN THE MEDICARE TRUST FUND.

- The President's 1993 Economic Plan extended the life of the Trust Fund by *3 years -- without a single Republican vote.*

- The President's Health Care Reform Plan would have extended the life of the Trust Fund by *another 5 years* past the current date of 2002.

MEDICARE TRUST FUND TALKING POINTS

Times and _Post_ Articles Show Why Republicans Should Agree to Resume Balanced Budget Negotiations:

- The President's balanced budget proposal contains enough Medicare savings to extend the life of the Trust Fund for a decade from now.

- The latest information on the Trust Fund simply shows why it is so important for Republicans to accept the President's invitation to resume serious balanced budget negotiations.

Information Should Not Be Used to Scare Medicare Beneficiaries:

- Over $120 billion remains in the Trust Fund and there is no imminent danger that claims will not be paid.

- The updated information should not be used to scare the 37 million elderly and people with disabilities and should not be used for partisan, political purposes.

- The Trust Fund will pay out claims at least through the turn of the century and much longer if the Congress enacts the President's balanced budget proposal.

Information Validates the President's Position on Medicare:

- The latest information simply provides additional validation for the President's position that we should move forward and balance the budget and strengthen the Trust Fund.

- The President has offered a proposal that achieves $124 billion in Medicare savings, which would extend the life of the Trust Fund by at least 10 years from now.

- This proposal builds on the President's previous successes in strengthening the Medicare Trust Fund. In 1993, without one Republican vote, he signed into law Medicare savings and other financing changes that extended the life of the Trust Fund by 3 years.

MEDICARE TRUST FUND UPDATE

Background

In 1995, the Medicare Hospital Insurance Trust Fund Trustees' Report projected that the Medicare Trust Fund would become exhausted in 2002. It also projected that shortly after 1996, fewer dollars would be going into the trust fund than would be paid out. (The projections are based on information prepared by professional, career actuaries at the Department of Health and Human Services.)

In late 1995 and early 1996, actual data indicated that expenditures out of the Part A Trust Fund were exceeding projections by about 3 percent and incoming revenue was slightly less than originally projected (by about 1 percent). (The variation reported falls within a typical margin of error and has now been incorporated into their current budgetary estimates.) Interest in this issue has been heightened largely due to recent articles in *The New York Times* and *The Washington Post*.

April 19th Monthly Treasury Statement and Distribution of Information. The latest available information does confirm that outgoing expenditures are exceeding incoming revenue by about $4.2 billion for the first six months of fiscal year 1996. This tracks the projections the actuaries used for the preparation of the President's Fiscal Year 97 budget. The expenditure and revenue changes have been reported and widely distributed to the Hill. They are included in the monthly Treasury report, which is given to every Member of Congress and is made available to the public. The latest report, which includes the $4.2 billion figure, was included in the April 19th "Monthly Treasury Statement." In addition, updated projections of the decreasing Trust Fund balance were included in the published, March Congressional Budget Office Medicare baseline.

Factors that Explain Changes in Numbers. Factors contributing to the experience of the Trust Fund to date include: seasonal variations in incoming revenue, increases in hospital admissions, sicker and more expensive patients being treated in hospitals, hospitals billing Medicare at faster rates, and increases in utilization in home health and nursing home services (which are also reimbursed under Part A.)

MEMORANDUM

April 23, 1996

TO: Distribution

FR: Chris Jennings

RE: Medicare Trust Fund

The attached document on the Medicare Trust Fund was written in response to Robert Pear's article in today's New York Times. I hope you find this information useful.

MEDICARE TRUST FUND UPDATE

Background. In 1995, the Medicare Hospital Insurance Trust Fund Trustees' Report projected that the Medicare Trust Fund would become exhausted in 2002. It also projected that shortly after 1996, fewer dollars would be going into the trust fund than would be paid out. (The projections are based on information prepared by professional, career actuaries at the Department of Health and Human Services.)

In late 1995 and early 1996, actual data indicated that expenditures out of the Part A Trust Fund were exceeding projections by about 3 percent and incoming revenue was slightly less than originally projected (by about 1 percent). (The variation reported falls within a typical margin of error and has now been incorporated into their current budgetary estimates.)

April 19th Monthly Treasury Statement and Distribution of Information. The latest available information does confirm that outgoing expenditures are exceeding incoming revenue by about $4.2 billion for the first six months of fiscal year 1996. This tracks the projections the actuaries used for the preparation of the President's Fiscal Year 97 budget. The expenditure and revenue changes have been reported and widely distributed to the Hill. They are included in the monthly Treasury report, which is given to every Member of Congress and is made available to the public. The latest report, which includes the $4.2 billion figure, was included in the April 19th "Monthly Treasury Statement." In addition, updated projections of the decreasing Trust Fund balance were included in the published, March Congressional Budget Office Medicare baseline.

Factors that Explain Changes in Numbers. Factors contributing to the experience of the Trust Fund to date include: seasonal variations in incoming revenue, increases in hospital admissions, sicker and more expensive patients being treated in hospitals, hospitals billing Medicare at faster rates, and increases in utilization in home health and nursing home services (which are also reimbursed under Part A.)

Information Should Not Be Used to Scare Medicare Beneficiaries. It is important to note that there remains over $120 billion in the Trust Fund and that there is no imminent danger that claims will not be paid. The updated information should not be used to scare the 37 million elderly and people with disabilities and should not be used for partisan, political purposes. The Trust Fund will pay out claims at least through the turn of the century and much longer if the Congress enacts the President's balanced budget proposal.

Information Validates the President's Position on Medicare. The latest information simply provides additional validation for the President's position that we should move forward and balance the budget and strengthen the Trust Fund. The President has offered a proposal that achieves $124 billion in Medicare savings, which would extend the life of the Trust Fund by at least 10 years from now. This proposal builds on the President's successes in strengthening the Medicare Trust Fund. In 1993, without one Republican vote, he signed into law Medicare savings and other financing changes that extended the life of the Trust Fund by 2 to 3 years.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

April 18, 1996

The Honorable Bill Archer
Chairman
Committee on Ways and Means
House of Representatives
Washington, DC. 20515-6348

Dear Mr. Chairman:

Thank you for inquiring about the status of the Medicare Hospital Insurance trust fund. As you know, the Administration has always been and remains committed to the fiscal integrity of the Medicare program and to the health security of our nation's elderly.

As you will recall, I and the other trustees have repeatedly called attention to the need for action to preserve these funds. Over a year ago, we warned that, without it, the HI trust fund would be depleted within seven years.

The Administration followed up with a set of concrete proposals to preserve Medicare. The President's FY 1997 budget proposal preserves Medicare, expands choice and preventive benefits, and cracks down on fraud and abuse, while balancing the budget. It would strengthen the trust fund and extend it well into the next decade. That would provide the President and the Congress the time to make longer-term reforms to the Medicare program and its finances.

The Congressional majority, too, has made proposals. We continue to believe, most strongly, that the Congress and the Administration can and should act. We should resume discussions and reach an agreement on balancing the budget and strengthening the Medicare Trust Fund.

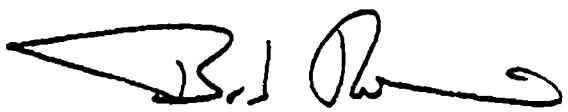
In your letter, you asked that we make every effort to complete the 1996 Trustees' report, and we are. As Secretary Shalala described in her letter to you in February, and as she and I testified before your committee, that report has been delayed as a result of the partial government shutdown and attendant work stoppages that resulted from this year's harsh winter. These combined both to slow down the work of the Social Security Administration staff, and to delay production of some of the economic data on which their projections are based.

Only last month, Congress enacted a change in the Social Security earnings test. This increased the workload of the Social Security Administration and required a recalculation of the OASDI and HI trust fund cash flows, causing a further delay. As you noted in your letter, the Social Security actuary now reports that he hopes to be able to provide a draft for the Trustees' approval by early June. We anticipate the report to be completed no later than June 10th.

As you might expect, we have been monitoring this situation closely. My staff has been in contact weekly with the offices of the chief actuaries at the Social Security Administration and at the Health Care Financing Administration to ensure that every effort is being made to issue the Report as soon as possible. In the meantime, we continue to publish the receipts and outlays of the HI trust fund every month.

I should reemphasize the point that I made when I testified before your committee several months ago -- that any one year's results will not change the need for us to act. Both the Administration and the Congress have proposals. As the President has indicated, there are sufficient savings right now to balance the budget and extend the life of the Medicare HI trust fund. We should not delay our joint efforts to balance the budget and shore up this program that helps provide health security to our nation's elderly. We remain ready and eager to work together.

Sincerely,



Robert E. Rubin

Monthly Treasury Statement

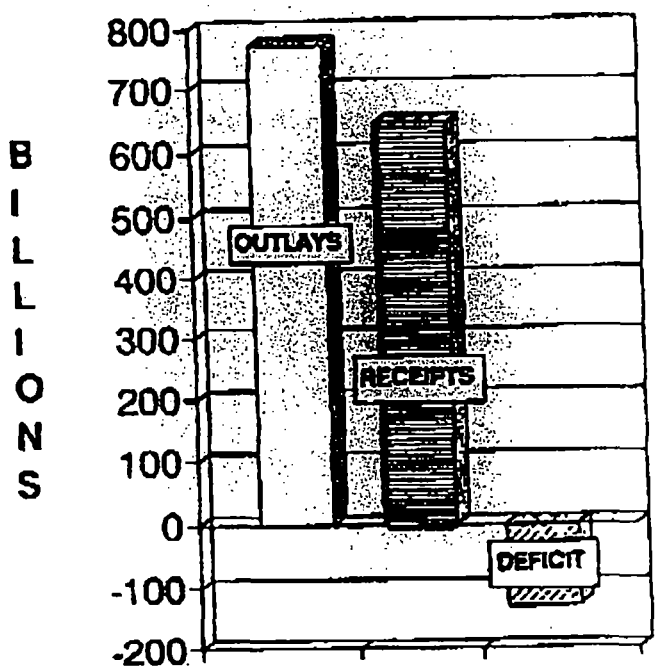
of Receipts and Outlays
of the United States Government

For Fiscal Year 1996 Through March 31, 1996, and Other Periods

Highlight

The cumulative outlays for the Earned Income Credit are $13.8 billion, $5.9 billion more than Fiscal Year 1995. This is due primarily to elimination of delays experienced in 1995 that were associated with Internal Revenue Service fraud prevention measures.

RECEIPTS, OUTLAYS, AND SURPLUS/DEFICIT THROUGH MARCH 1996



Contents

Compiled and Published by

Department of the Treasury
Financial Management Service

Table 8. Trust Fund Impact on Budget Results and Investment Holdings as of March 31, 1996

[$ millions]

Classification	This Month			Fiscal Year to Date			Securities held as investments Current Fiscal Year		
							Beginning of		Close of This Month
	Receipts	Outlays	Excess	Receipts	Outlays	Excess	This Year	This Month	
Trust receipts, outlays, and investments held:									
Airport and airway	28	622	−493	1,578	3,225	−1,347	11,145	10,439	9,950
Black lung disability	44	43	1	295	271	24	.....	.....	.....
Federal disability insurance	8,974	3,786	1,188	27,872	21,802	5,870	35,225	39,896	41,087
Federal employees life and health	.....	97	−97	.....	−317	317	23,729	24,157	24,063
Federal employees retirement	1,249	3,390	−2,141	22,079	19,778	2,301	374,219	321,974	375,866
Federal hospital insurance	9,180	10,410	−1,230	56,294	60,542	−4,247*	129,864	127,583	126,072
Federal old-age and survivors insurance	27,887	25,337	2,550	166,487	149,646	16,841	447,947	462,196	464,737
Federal supplementary medical insurance	13,359	5,367	7,992	43,184	33,480	9,684	13,513	14,345	22,718
Highways	1,846	1,698	−152	11,567	10,955	612	18,531	19,648	19,317
Military advances	1,007	1,228	−221	7,149	7,130	18	.....	.....	.....
Railroad retirement	419	644	−225	2,727	4,007	−1,280	14,440	15,156	15,413
Military retirement	846	2,385	−1,539	21,939	14,241	7,698	112,983	121,136	119,677
Unemployment	366	2,613	−2,246	10,262	13,865	−3,603	47,141	46,212	44,123
Veterans life insurance	23	140	−117	650	690	60	13,606	13,772	13,675
All other trust	360	531	−171	2,426	2,419	7	14,060	14,851	14,735
Total trust fund receipts and outlays and investments held from Table 6-D	61,282	58,190	3,101	374,581	341,836	32,966	1,856,885	1,231,983	1,291,332
Less: Interfund transactions	14,914	14,914	.....	111,535	111,535	.....			
Trust fund receipts and outlays on the basis of Tables 4 & 5	46,276	43,276	3,101	263,058	230,101	32,966			
Total Federal fund receipts and outlays	45,467	95,843	−50,377	400,284	581,458	−181,174			
Less: Interfund transactions	49	49	.....	211	211	.....			
Federal fund receipts and outlays on the basis of Table 4 & 5	45,418	95,794	−50,377	400,073	581,248	−181,174			
Less: Offsetting proprietary receipts	2,784	2,784	.....	17,975	17,975	.....			
Net budget receipts & outlays	89,911	136,286	−47,375	646,154	773,372	−126,218			

... No transactions.

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds such as Federal payments and contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipts side of such transactions is offset against budget outlays. In this table, interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds respectively.

Note: Details may not add to totals due to rounding.

THE WHITE HOUSE

WASHINGTON

February 28, 1996

The Honorable Bill Thomas
Chairman, Subcommittee on Health
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515-6348

Dear Mr. Chairman:

I appreciate the opportunity to respond to your letter suggesting that the Administration failed to fully and properly disclose information about the performance of the Medicare Trust Fund in fiscal year 1995. I hope the information in this letter will make clear that the information was widely circulated and analyzed by Congressional and outside experts in late 1995. As Chairman Domenici's February 12, 1996 *Budget Bulletin* stated, the information "first became available last October, in the Monthly Treasury Statement (MTS) summarizing outlays for FY 1995. This new data was incorporated by CBO into their revised December baseline."

The following is a detailed summary of the actions the Administration took to release information on the performance of the Trust Fund in fiscal year 1995 and the extent to which people outside the Administration, including the Congressional Budget Office, were aware of the Trust Fund's performance in fiscal year 1995. I believe it will make clear that the information was fully and properly disclosed: the information was sent to every Member of Congress (with multiple copies to your own Committee), was analyzed in 1995 by CBO and actuarial groups, and was even incorporated into the CBO revised December baseline.

- The Administration reported the Medicare Trust Fund's income, outlays, and invested assets at the end of the fiscal year 1995 in the "Final Monthly Treasury Statement of Receipts and Outlays of the United States Government" on October 27, 1995.

- Nearly 4,000 copies of the Treasury Department's report were distributed to the public, including individual copies for every Member of Congress, with 50 extra copies to your House Ways and Means Committee, as well as the Senate Finance Committee, the House and Senate Budget, Appropriations, and Banking Committees, and the CBO.

- The summary of the Report (p.4) clearly stated that "outlays from the Hospital Insurance Trust Fund (Part A) exceeded the MSR estimate by $2.9 billion." Clearly, this fact would not have been highlighted in the summary if there were any intent to conceal the information.

- The table of contents on the front page of the official Treasury Report gives the page number for a few items, including the table on "federal trust funds/securities." The table -- which lists the year-end status of all the major trust funds -- is widely analyzed and shows that the $129 billion Medicare Trust Fund ran a $36 million deficit in fiscal year 1995.

- While your letter suggests that the information was not highlighted for policy makers, the CBO analyzed the Treasury report and widely circulated its November 7, 1995, "Analysis of the September Treasury Statement," including mailing a copy to Administration officials.

- CBO then used this information and incorporated it into its December baseline.

- The American Academy of Actuaries, chaired by Guy King, also analyzed the Treasury Department report and mentioned the fiscal year 1995 performance of the Trust Fund in its "Comments and Recommendations on Medicare Reform," dated December 21, 1995.

- As Chairman Domenici's February 12, 1996 *Budget Bulletin* stated, the Trust Fund information reported in the New York *Times*, "first became available last October, in the Monthly Treasury Statement (MTS) summarizing outlays for FY 1995. This new data was incorporated by CBO into their revised December baseline. It was partially offset by Medicare part B expenditures which came in lower than projected." The Majority Staff of the Senate Budget Committee concluded in the *Budget Bulletin* that "the recent changes in projections do not significantly affect the long-run Medicare situation."

Congressional and Administration staff experts may not have raised this information to the level your letter seems to suggest they should have because the Trust Fund's fiscal year 1995 performance is but one factor upon which the HCFA actuaries base their projections of the Trust Fund's long-term performance and its projected depletion date. In making their projections, the HCFA actuaries analyze a range of factors, including the Trust Fund's performance in the current fiscal year, and current data on health care costs, interest rate expectations, and HI payroll tax income. As you know, the actuaries are currently in the process of analyzing these and other factors for the Trustees' 1996 report. While it is possible that when everything has been analyzed, the Medicare Trust Fund performance in fiscal year 1995 may contribute to slightly moving back the depletion date, it is still not clear. Indeed, the change from projections for fiscal year 1995 was within the range of normal variation.

I would also note that the Trust Fund did not go "broke" in fiscal year 1995, as your letter states. Far from being "broke," the Trust Fund had a balance of more than $129 billion at the end of fiscal year 1995. The $36 million deficit in fiscal year 1995 reduced the Fund's net assets from $129.555 billion at the beginning of the fiscal year to $129.520 at the end of the fiscal year.

I hope this information helps clear up any misunderstandings about the release of this information. We all agree on the importance of strengthening the Medicare Trust Fund. As you know, the President's 1993 Economic Plan included three controversial provisions that the President fought for and that helped add three years to the life of the Trust Fund. The Administration and Congressional leaders now have enough savings in common to balance the budget and further strengthen the Medicare Trust Fund by several years, and we have repeatedly made the point that we should continue efforts to find common ground on both balancing the budget and strengthening the Medicare Trust Fund.

Sincerely,

Gene B. Sperling
Deputy Assistant to the President
for Economic Policy

cc: The Honorable Pete Stark

URGENT

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

LRM NO: 3601

FILE NO: 765

2/28/96

LEGISLATIVE REFERRAL MEMORANDUM

Total Page(s): 5

TO: Legislative Liaison Officer - See Distribution below:

FROM: Janet FORSGREN B. Pellicci (for) Assistant Director for Legislative Reference

OMB CONTACT: Robert PELLICCI 395-4871
Legislative Assistant's line (for simple responses): 395-7362
C=US, A=TELEMAIL, P=GOV+EOP, O=OMB, OU1=LRD, S=PELLICCI, G=ROBERT, I=J
pellicci_r@a1.eop.gov

SUBJECT: HHS Qs and As on status of the Medicare Hospital Insurance Trust Fund

DEADLINE: 3:00 p.m. Wednesday, February 28,1996

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President.

Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: Attached are proposed Q&As for Secretary Shalala's appearance before the House Ways and Means Committee tomorrow, February 29th.

DISTRIBUTION LIST:

AGENCIES: 76-National Economic Council - Sonyia Matthews - 2024562174
118-TREASURY - Richard S. Carro - 2026221146

EOP: Nancy-Ann Min
Chris Jennings
Gene Sperling
Dr. Tyson
Carol Rasco
Jennifer Klein
Barry Clendenin
Mark Miller
Barry Anderson
Bob Damus
Mark Mazur
Joe Minarik
Larry Jacobson
Lisa Kountoupes
Allison Eydt
Jim Murr
Janet Forsgren

7

MIKE MCCURRY STATEMENT

QUESTION:

Mike McCurry downplayed the importance of Rick Foster's statements to the New York Times, saying that perhaps they "overstated" the preliminary HCFA data, that it amounted to only a "fractional" difference. Yet a December memo from Rick Foster to Bruce Vladeck says that "this [FY 1995] experience is significantly less favorable than estimated in the 1995 Trustees Report ..." Which is it?

ANSWER:

- The 1995 Trustees Report projected that HI Trust Fund income would exceed expenditures by $4.7 billion in FY1995; however, it turned out that expenditures actually exceeded income by $36 million. In FY 95, fund expenditures were $114.083 billion.

- The source of the difference between the projected and actual fund balance was a 1.2 percent overestimation of total HI Trust Fund income and a 3.1 percent underestimation of total HI Trust Fund expenditures. Consequently, while the effect on the HI Trust Fund balance was significant, the actual projection errors were small and quite within reason.

- I believe Mr. McCurry was also making the point that the performance of the Trust Fund in fiscal year 1995 is one of the many factors upon which the HCFA actuaries base their projection of the Fund's performance over the longer term, and its projected depletion date. Other factors include new economic projections, new projections of HI income and expenditures, and trends in health care costs and utilization.

- While this is a significant finding, it did not drastically change the overall outlook for the life of the HI Trust Fund. In our May report, based on final economic projection and new estimates of health care costs and utilization, we will be able to report the actual total change in the HI Fund's depletion date for 1995.

PRESIDENT'S PLAN DOES NOT ACHIEVE LONG-TERM SOLVENCY

QUESTION:

In the minutes from the April 3, 1995 Board of Trustees meeting HCFA Administrator Bruce Vladeck is quoted as saying that to bring the HI program into actuarial balance for the first 25-year projection, either outlays will have to decline by 30 percent or income increase by 44 percent (or some combination thereof). It does not appear to me that the President is even close to moving in this direction with his current Medicare proposal. When is he going to get serious about the solvency of the Trust Fund?

ANSWER:

- The President is very serious about improving the Medicare program and upholding our commitment to current beneficiaries and future generations. We have spent the better part of the past year focusing on developing Medicare proposals to do this.

- As part of his comprehensive plan to balance the Federal budget, the President has proposed Medicare savings provisions totaling $124 billion over the next seven years. The President's Medicare plan would extend the life of the HI Trust Fund for at least the next decade. This will give the Administration and the Congress time to address the long-term problems that will arise from the retirement of the baby boomers, which will begin in 2010.

BACKGROUND:

- The figures cited in the question -- 30 percent decrease in outlays or 44 percent increase in revenue -- appear on page 27 of the Trustees report.

6

IMPACT ON BUDGET NEGOTIATIONS

QUESTION:

Don't you think if the budget negotiators had this information available to them when the Department knew it that it might have affected the course of the negotiations?

ANSWER:

- First, the budget negotiators did have this information available to them: in November, both sides agreed to use revised CBO estimates during the discussions. CBO revised its baseline at this time, and reflected, among other changes and updates, the latest figures from the Treasury on the status of the Trust Fund.

- Second, the difference between the projections and the actual experience of the Trust Fund last year was not sufficient, I believe, to affect the course of budget negotiations.

- Finally, when we consider some of the key points of contention in the Medicare debate, it is hard to imagine how <u>any</u> Trust fund data could have informed our discussions:

  - We oppose the Republican increase in the Part B premium which increases costs for seniors without contributing to solvency of the Part A Trust Fund.

  - We oppose elimination of limits on balance billing -- advocated by Republicans -- which shift costs to seniors without affecting the solvency of the Trust Fund.

  - We oppose Republican MSAs -- which CBO has estimated will raise Medicare costs by more than $4 billion. They will actually hasten the depletion of the Trust Fund.

  - We oppose Republican provisions that weaken efforts to combat fraud and abuse.

DOCUMENTATION THAT MEDICARE PART A TRUST FUND INFORMATION WAS PUBLICLY-AVAILABLE AND WIDELY DISTRIBUTED BY THE BEGINNING OF NOVEMBER 1995

DOCUMENT 1: October 27, 1995 Treasury Monthly Statement:

- p.4 Discussed Trust Fund outlay and disbursement
- Table 8 explicitly showed the $36 million deficit

DOCUMENT 2: Distribution List for Treasury Monthly Reports

This documented was widely distributed to the Hill:

- 50 copies were sent to Senate Budget Committee
- 50 copies were sent to House Budget Committee
- 50 copies were sent to Senate Appropriation
- 50 copies were sent to House Appropriation
- 80 copies were sent to Congressional Budget Office
- 400 copies to individual Congressional Offices

DOCUMENT 3: Congressional Budget Office Analysis (Jim Blum)of Treasury September Report:

- CBO analyzed the September Report and discussed briefly that the Medicare Trust Fund numbers also exceeded their projections.

DOCUMENT 4: Administration Midsession review:

- The Midsession Review stated in July 1995 that projected spending related to Medicare Trust Fund projection looked like it would be higher

Document 1 3424

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED FOR RELEASE AT 2:00 P.M., E.D.T.
October 27, 1995

Treasury Contact: Calvin Mitchell
(202) 622-2920
OMB Contact: Lawrence J. Haas
(202) 395-7254

JOINT STATEMENT OF
ROBERT E. RUBIN,
SECRETARY OF THE TREASURY.
AND
ALICE M. RIVLIN,
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET,
ON
BUDGET RESULTS FOR FISCAL YEAR 1995

SUMMARY

The Administration is today releasing the September Monthly Treasury Statement of Receipts and Outlays of the United States Government. The statement shows the actual financial totals for the fiscal year ended September 30, 1995, as follows:

- a deficit of $163.8 billion (2.3 percent of Gross Domestic Product (GDP));
- total receipts of $1,350.6 billion (19.3 percent of GDP); and
- total outlays of $1,514.4 billion (21.5 percent of GDP).

(MORE)

RR - 668

Document 1

Final Monthly Treasury Statement

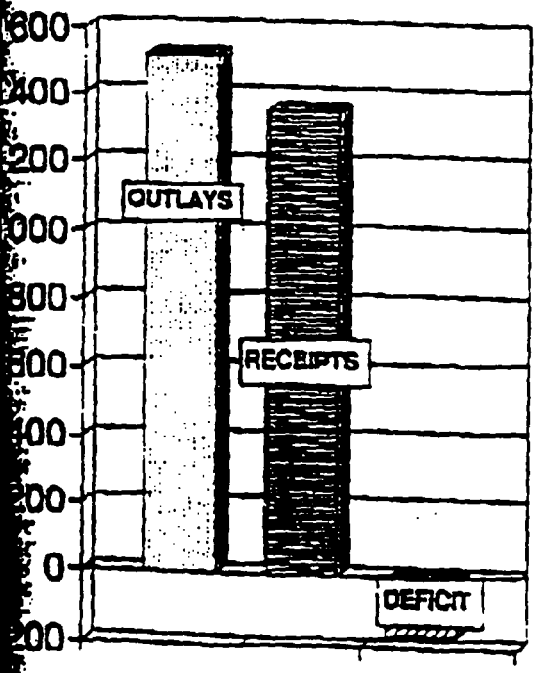
of Receipts and Outlays
of the United States Government

For Fiscal Year 1995 Through September 30, 1995, and Other Periods

Highlight

This issue includes the final budget results for Fiscal Year 1995.

RECEIPTS, OUTLAYS, AND SURPLUS/DEFICIT THROUGH SEPTEMBER 1995



Contents

Compiled and Published by

Department of the Treasury
Financial Management Service

execution in the Defense Business Oerations Fund (DBOF). In FY1995, DBOF cash managemen responsibilities were transferred to the Military Departments and Defense Agencies. This transfer o responsibilities resulted in more cautious cash management practices by these activities to ensure tha cash balances were sustained at the appropriate levels.

Department of Education. Actual outlays for the Department of Education were $31.3 billion, $1.(billion below the MSR estimate. Most of this difference occurred because States drew down fund. more slowly than expected under the Department's State formula grant programs. In addition, th Department obligated funds more slowly than expected in programs governed by new legislation o: for which new systems were being put in place.

Department of Energy. Actual outlays for the Department of Energy were $17.6 billion, $1.7 billio higher than the MSR estimate. Almost all the difference is attributable to spendout rates higher thar historical averages, upon which the MSR estimates were based, in the Department's atomic energy defense activities, which include nuclear weapons and environmental cleanup programs.

Department of Health and Human Services. Actual outlays for the Department of Health and Humar Services were $303.1 billion, $1.3 billion higher than the MSR estimate, with higher outlays for Medicare and Medicaid partly offset by lower outlays for other programs.

Actual outlays for the Medicare program were $180.1 billion, $2.3 billion above the MSR estimate. Outlays from the Hospital Insurance Trust Fund (Part A) exceeded the MSR estimate by $2.9 billion while the Supplementary Medical Insurance Trust Fund (Part B) outlays were $0.6 billion lower thar the MSR estimate. Seasonal variations in hospital inpatient costs are the major contributing factor for HI.

Actual outlays for the Medicaid program were $89.1 billion, $0.6 billion higher than were estimated in the MSR. A unexpected influx of $0.4 billion in State-submitted supplemental grant award requests during September was largely responsible for the increase above the MSR estimate.

Actual outlays for the Public Health Service agencies were $21.0 billion, $0.8 billion below the MSR estimate. Outlays for the Health Resources and Services Administration and the Centers for Disease Control showed the greatest reductions from earlier estimates.

Actual outlays for the Administration for Children and Families, including family support payments to States, were $32.0 billion, $0.7 billion below the MSR estimate. The bulk of the difference appears to be from below-projected claims in the foster care and adoption assistance programs, low early spending among Empowerment Zones (reflected in the Social Services Block Grant), and below-projected use of low-income home energy assistance program contingency funds.

Department of Housing and Urban Development. Department of Housing and Urban Development. Actual outlays for the Department of Housing and Urban Development were $29.0 billion, $0.5 billion above the MSR estimate. The higher expenditures resulted from the early payment of

Table 8. Trust Fund Impact on Budget Results and Investment Holdings as of September 30, 1995

[$ millions]

Classification	This Month Receipts	This Month Outlays	This Month Excess	Fiscal Year to Date Receipts	Fiscal Year to Date Outlays	Fiscal Year to Date Excess	Securities held as Investments Current Fiscal Year: Beginning of This Year	Beginning of This Month	Close of This Month
Trust receipts, outlays, and investments held:									
Airport	333	777	−444	6,123	7,242	−1,117	12,206	11,847	11,145
Black lung disability	416	462	−46	957	957	(**)	......	......	......
Federal disability insurance	4,749	3,606	1,143	70,215	41,380	28,835	6,100	34,146	35,225
Federal employees life and health		−148	148	......	−1,240	1,240	[illegible]	23,091	23,728
Federal employees retirement	24,375	3,268	21,108	68,821	38,[illegible]	[illegible]	348,317	[illegible]	374,319
Federal hospital insurance	9,150	10,271	−1,121	114,847	114,883	−36	128,716	130,931	129,864
Federal old-age and survivors insurance	[illegible]	[illegible]	[illegible]	[illegible]	294,674	[illegible]	413,425	[illegible]	447,947
Federal supplementary medical insurance	1,745	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13,513
Highways	2,115	2,340	−226	23,813	22,888	925	17,894	18,846	18,531
Military advances	[illegible]	1,314	−647	12,469	13,417	−948	......	......	......
Railroad retirement	451	675	−224	9,093	7,924	1,169	12,903	14,083	14,440
Military retirement	918	2,386	−1,468	34,624	27,797	6,827	105,367	114,320	112,383
Unemployment	336	1,801	−1,465	32,820	25,282	7,539	39,766	48,560	47,141
Veterans life insurance	23	110	[illegible]	1,358	1,231	128	13,477	13,590	13,806
All other trust	525	555	−30	6,056	4,846	1,710	12,817	14,180	14,060
Total trust fund receipts and outlays and investments held from Table 6-D	[illegible]	[illegible]	14,772	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Less: Interfund transactions	27,150	27,150	......	212,849	212,849	......	[redacted]		
Trust fund receipts and outlays on the basis of Tables 4 & 5	48,518	30,742	14,772	550,432	451,671	98,760			
Total Federal fund receipts and outlays	100,894	108,480	−7,486	836,221	1,097,794	−262,573			
Less: Interfund transactions	443	443	......	976	973	......			
Federal fund receipts and outlays on the basis of Table 4 & 5	100,851	108,037	−7,486	834,245	1,096,819	−262,573			
Less: Offsetting proprietary receipts	2,846	2,846	......	34,101	34,101	......			
Net budget receipts & outlays	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			

... No transactions.

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds such as Federal payments and contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipts side of such transactions is offset against budget outlays. In this table, interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds respectively.

Note: Details may not add to totals due to rounding.

Document 2

DISTIBUTION LIST FOR JOINT STATEMENT BY OMB AND TREASURY ON BUDGET RESULTS FOR FISCAL YEAR 1995 (CONT.)

NAME OF OFFICE	NUMBER OF COPIES
OFFICE OF MANAGEMENT AND BUDGET PRESS OFFICE, CONTACT:LARRY HAAS, EXT. (202) 395-7254, RM.253 **(PRESS RELEASE & BOOKS)**	75
OFFICE OF PUBLIC AFFAIRS CONTACT:LESLIE CUMMINGS EXT(202) 622-2960, RM.2315 **(PRESS RELEASE & BOOKS)**	200
FISCAL ASSISTANT SECRETARY CONTACT: MARY ELLEN STROUPE, EXT.(202)622-1811, RM.2044 **(PRESS RELEASE & BOOKS)**	75
LEGISLATIVE AFFAIRS CONTACT: MARNE LEVINE, OR GAIL PETERSON (202)622-1900, RM.3134 **(PRESS RELEASE & BOOKS)**	600
CAPITOL HILL SENATE AND HOUSE INDIVIDUAL MEMBERS, CONTACT: MARNE LEVINE OR GAIL PETERSON. EXT. (202) 622-1900 RM.3134 **(PRESS RELEASE & BOOKS)**	400
SENATE BUDGET COMMITTEE	50
HOUSE BUDGET COMMITTEE	50
SENATE APPROPRIATIONS COMMITTEE	50
HOUSE APPROPRIATIONS COMMITTEE	50

(more)

October 04, 1995

DISTIBUTION LIST FOR JOINT STATEMENT BY OMB AND TREASURY ON BUDGET RESULTS FOR FISCAL YEAR 1995

NAME OF OFFICE	NUMBER OF COPIE
DO BLDG. DISTRIBUTION (PRESS RELEASE ONLY)	175
FINANCIAL MANAGEMENT SERVICE, CONTACT: CAROLYN CULVER OR FAY MCCREARY, EXT. (202) 874-9890 OR 874-9880 (PRESS RELEASE ONLY)	150
FINANCIAL MAILING LIST (PRESS RELEASE ONLY)	1721
MESSENGER SERVICES	
HEISS (PRESS RELEASE ONLY)	100
CHITTENDEN (PRESS RELEASE ONLY)	50
TOTAL NUMBER (PRESS RELEASE ONLY)	2196

NAME OF OFFICE	NUMBER OF COPIES
FEDERAL RESERVE BOARD CONTACT: ROBIN MCKNIGHT. (202)452-3086 (PRESS RELEASE & BOOKS)	12
CONGRESSIONAL BUDGET OFFICE CONTACT: THELMA JONES. EXT.(202)226-2702 (PRESS RELEASE & BOOKS)	80
OFFICE OF MANAGEMENT AND BUDGET ANALYSIS BRANCH. CONTACT: ARNETTE WHITE, EXT.(202) 395-3945, RM. 6001 (PRESS RELEASE & BOOKS)	55

(more)

Document 3

NOTICE
Internal Memorandum
Not for Public Release

November 7, 1995

ANALYSIS OF THE SEPTEMBER TREASURY STATEMENT

The September surplus of $7.3 billion was $3.0 billion higher than a year ago but $1.7 billion lower than our estimate for the month. The fiscal year ended with a deficit of $163.8 billion, $39.3 billion below last year's deficit of $203.1 billion (see Table 1).

TABLE 1. BUDGET RECEIPTS, OUTLAYS, AND THE DEFICIT FOR SEPTEMBER 1995 (In billions of dollars)

Budget Aggregates[a]	September 1995	September 1994	Fiscal Year Totals 1995	1994	Percent Change
Receipts	143.2	135.9	1,350.6	1,257.5	7.4
Outlays	135.9	131.6	1,514.4	1,460.6	3.7
Deficit/Surplus (-)	-7.3	-4.3	163.8	203.1	-19.3

a. Includes Social Security and Postal Service, which are off-budget.

The 1995 deficit was $10.8 billion lower than the CBO March baseline estimate but $2.4 billion higher than our August baseline estimate (see Table 2). CBO's deficit estimates were closer to the mark than OMB's. The President's February budget overestimated the 1995 deficit by $28.7 billion, and the OMB July mid-session review underestimated the deficit by $3.8 billion.

TABLE 2. BUDGET RECEIPTS, OUTLAYS, AND THE DEFICIT FOR FY 1995 (In billions of dollars)[a]

Budget Aggregates[a]	CBO March Baseline	CBO August Baseline	Actual	Actual Less CBO March	Actual Less CBO August
Receipts	1,355.2	1,356.7	1,350.6	-4.6	-6.2
Outlays	1,529.9	1,518.2	1,514.4	-15.5	-3.8
Deficit	174.6	161.4	163.8	-10.8	2.4

a. Includes Social Security and Postal Service, which are off-budget.

Outlays for the fiscal year totaled $1,514.4 billion, an increase of 3.7 percent from the 1994 level, the same percentage increase in outlays as for the previous year. Defense-Military outlays continued their downward trend, falling $9 billion (3.4 percent) below the 1994 level. Social Security benefits and Medicare outlays increased by $33 billion (7.0 percent) over 1994, about the same rate of growth as during the previous year.

Other major benefits grew by $12 billion (3.7 percent) in 1995, down slightly from the rate of growth in 1994 for this category of programs. Medicaid grants were up 8.6 percent, marginally above the 8.3 percent growth in 1994. Unemployment benefit outlays continued to decline in 1995, dropping $5 billion from the 1994 level. Food and nutrition outlays rose by only 2 percent in 1995 and supplemental security income benefits grew by less than 1 percent (1994 was boosted by an extra monthly payment because of the calendar). On the other hand, EITC outlays were up 30 percent over 1994.

Debt service costs rose sharply in 1995. Net interest on the public debt rose by $29 billion (13.6 percent) over the 1994 level. Other federal program outlays, however, fell by $11 billion (5.9 percent), but this was the result of spectrum auction receipts of $7.6 billion and a $10 billion increase in net negative outlays for deposit insurance programs. If these two items were excluded, other federal program outlays rose by $7 billion (3.6 percent) over the 1994 level.

TABLE 6. FISCAL YEAR 1995 OUTLAYS (In billions of dollars)

Major Source	CBO March Baseline	CBO August Baseline	Actual	Actual Less CBO March	Actual Less CBO August
Defense-Military	258.3	255.3	259.6	1.2	4.2
Social Security and Medicare	510.8	509.8	509.0	-1.9	-0.9
Other Major Benefits	333.3	331.5	331.0	-2.3	-0.5
Net interest on the public debt	243.5	240.4	239.2	-4.3	-1.1
Other federal programs	183.9	181.2	175.6	-8.3	-5.6
Total Outlays	1,529.9	1,518.2	1,514.4	-15.5	-3.8

Note: Details may not add to totals because of rounding.
a. Less than $50 million.

Total outlays in 1995 were $15.5 billion lower than we projected in our March baseline and $3.8 billion below our August update estimate. The comparable OMB misestimates were $24.5 billion for the February budget and $3.5 billion for the July mid-session review. As shown in Table 6, the bulk of the lower-than-expected spending from the CBO estimates were in the "other federal programs" category and involved a variety of programs including deposit insurance, CCC farm price supports, Public Health Service, Justice Department, NASA, and the Postal Service.

Defense-Military outlays were higher than both our March and August estimates, but these overruns were more than offset by shortfalls in other spending areas. Medicare outlays in total were $1.0 billion lower than projected in March and August, although hospital insurance (Part A) exceeded our projection by $1.4 billion while supplementary medical insurance (Part B) outlays fell short by $2.4 billion. Medicaid outlays, on the other hand, were quite close to our baseline estimates. The major shortfall from our March estimate for "other major benefits" was for the earned income tax credit, which was reflected in our August update.

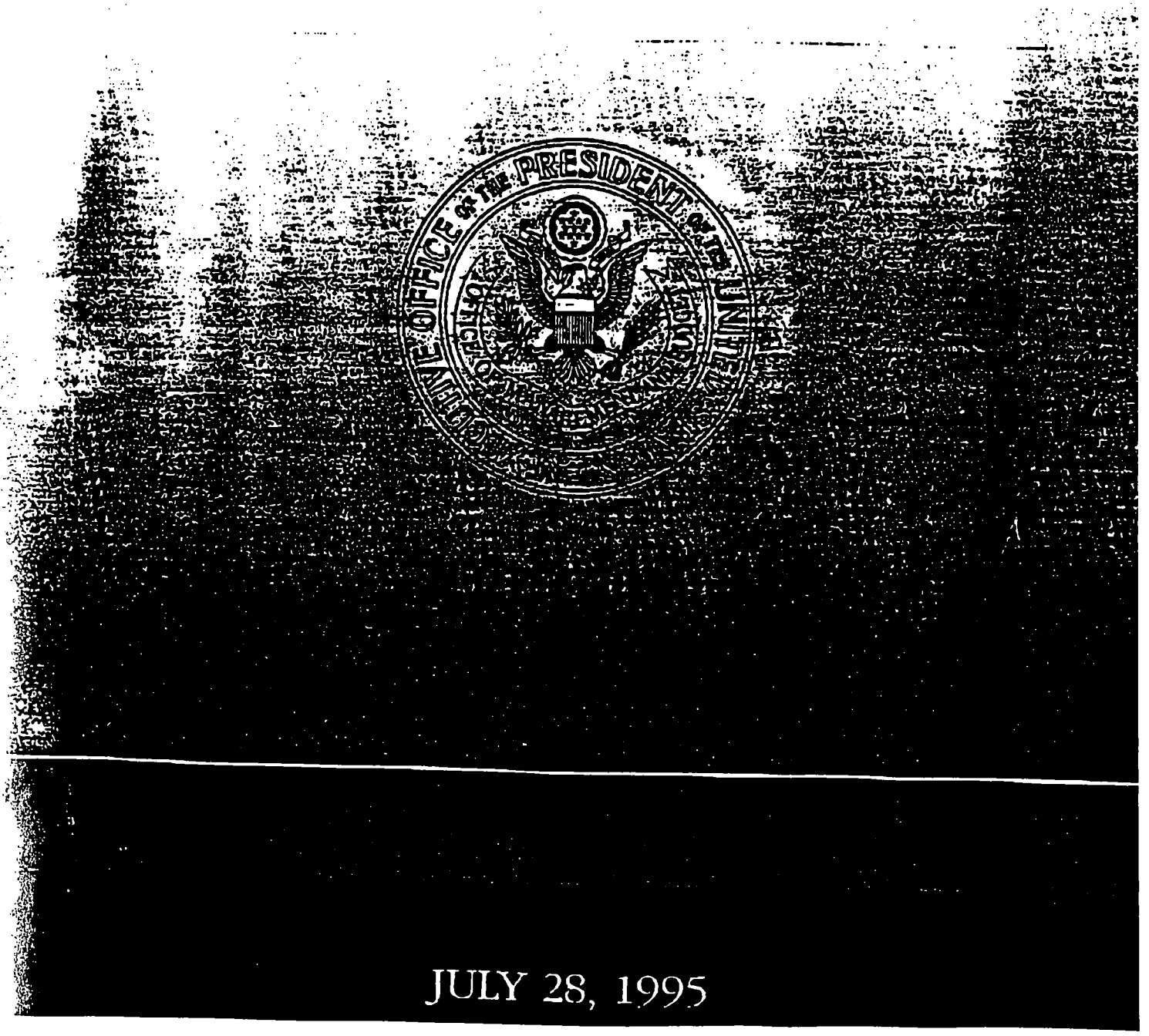
October Projections

October receipts are estimated to be $97 billion and outlays $125 billion, giving a deficit of $28 billion for the month. Last year, October receipts were $89.0 billion, outlays were $120.4 billion, and the deficit was $31.3 billion.

Jim Blum
Rosemary Marcuss

Document 4

MID-SESSION REVIEW
OF THE
1996 BUDGET



JULY 28, 1995

thrift failures than anticipated through June 30, 1995, the date when responsibility for resolving failed institutions was transferred from RTC to the Savings Association Insurance Fund (SAIF). Outlays for SAIF increase by $2.9 billion from 1995–2000, due primarily to lower projected premium income, higher working capital needs, and slightly higher loss rates.

Outlay estimates for the Bank Insurance Fund (BIF) decline by $1.8 billion in 1997 and $1.3 billion in 1998, relative to June. The decline arises mainly from a lower level of projected bank failures in those two years, reflecting currently high bank earnings. In 2000, projected BIF outlays increase by $2.4 billion, relative to June, largely because, under current assumptions, the number of assets requiring liquidation would fall, thereby producing fewer receipts to the Government. From 1995–2000, projected BIF outlays decline by $0.4 billion, relative to June.

Exchange stabilization fund.—The 1995 outlay estimate has declined by $3.2 billion relative to the June estimate, reflecting interest payments made by Mexico on outstanding loans.

Postal service.—The 1995 net outlay estimate has declined by $1.4 billion, relative to June, reflecting experience to date during 1995. Record mail volume, which increases receipts, along with cost containment measures have reduced net costs.

Federal Housing Administration insurance liquidating funds.—For these funds, which reflect cash transactions relating to loans made before 1992, baseline spending estimates have risen by $2.2 billion in 1995, $0.3 billion in 1996, and $3.5 billion from 1996–2000 to reflect actuals to date and to accurately represent current practices. In addition, more refined estimates of the administration's "mark to market" proposal have increased default costs by $3.2 billion from 1996–2000 but saved $4.8 billion in 1996. The savings are due to legislation which, following budget enforcement rules that pertain to credit programs, is recorded in net present value terms in the year of enactment. On a total cost (mandatory and discretionary) and net present value basis, "mark to market" will produce long-term savings of $8.6 billion relative to the cost of maintaining the status quo.

Medicare.—Estimated outlays are $1.0 billion higher for 1996 and $7.1 billion higher from 1996–2000 for technical reasons. In the hospital insurance (HI) program, projected spending for skilled nursing facilities and hospice care has risen to reflect recent cost data. Projected costs for hospitals fall slightly, reflecting a small drop in expected admissions, partially offsetting the increases.

In the supplemental medical insurance (SMI) program, estimated outlays have declined since June, partially offsetting increases in the HI program. Most of this decline is due to revised estimates of spending for physician services in 1996 and beyond. More recent cost data for 1994 and 1995 suggest that outlays for physician services in those years are higher than estimated in the 1996 Budget. These higher actual outlays are passed through a statutory fee update formula that lowers projected fee updates in 1996 and 1997, thus reducing estimated spending on physician services in 1996 and after. Group practice estimates have also declined based on actual data which suggest that HMO enrollment is not growing as vigorously as anticipated.

Federal Communication Commission (FCC) spectrum auction receipts.—Estimated receipts have increased by $3.6 billion in 1995, thereby reducing total outlays. The FCC designed and implemented the auction process more rapidly than expected. The Administration expects total receipts for all auctions authorized under OBRA93 to conform to the original $12.6 billion estimate.

Discretionary Budget Authority

Discretionary budget authority for 1995 declined from $517.7 billion in February to $494.2 billion in June, reflecting the enactment of Public Law 104–19—the FY 1995 Supplemental and Rescission Bill. Budget authority increased by $3.3 billion in July largely to reflect reclassification of FEMA disaster relief, which the Administration classified as mandatory spending in the June estimates.

REPUBLICAN GAMES WITH THE MEDICARE TRUST FUND

October 31, 1995

In response to criticisms that they are cutting Medicare too much in order to pay for tax cuts, and not to strengthen the Trust Fund as they originally claimed, Republicans have now decided to play a shell game with Medicare.

- Both the House plan and the President's plan extended the Trust Fund through 2006.
- The Republicans then revised their plan to redirect savings from the Medicare Part B program and general revenues into the Part A Trust Fund.
- The Republicans made this revision to provide cover for their excessive tax cut, as well as to be able to claim they were pushing back the Trust Fund exhaustion date beyond 2006.

The Republican shell game proves that they could reduce their Medicare cuts and strengthen the Medicare Trust Fund simply by discarding their excessive tax cut and directing the savings from general revenue into the Trust Fund.

Republicans now claim that their Medicare proposals push the exhaustion date of the Medicare Trust Fund well beyond 2010. <u>But the facts are:</u>

Republicans never cared about Medicare Trust Fund exhaustion dates until they developed their plan to balance the budget with a huge tax cut targeted at the wealthy.

- In 1993, Republicans voted against the President's economic plan which strengthened the Medicare trust fund and extended its solvency for another three years.
- In 1994, Republicans opposed President Clinton's 1994 health care reform plan which would have delayed insolvency for another five years past the current date of 2002.
- In 1995, Republicans latched onto the Trust Fund issue to hide their $270 billion Medicare cut after they concluded they needed $270 billion in Medicare cuts to pay for their tax cuts: "The GOP had decided to squeeze $270 billion from Medicare to fulfill its promise of a tax cut and balanced budget in seven years, a pledge which Gingrich had bound his colleagues in February." -- *Washington Post*, October 29, 1995.

The Trust Fund actuaries concluded that <u>both</u> the House Republican $270 billion Medicare cut and the President's $124 billion proposal both extended the Trust Fund through 2006. As reported out of the House Ways and Means Committee, the two proposals extended the solvency of the Trust Fund through 2006.

- <u>More than half of the Republican cuts had nothing to do with the Trust Fund</u>. Most of the cuts were in the Medicare Part B program, which covers physician and outpatient hospital and lab services. Not one penny of their premium increases went into the Trust Fund. Instead, they went into the general fund to pay for their $245 billion tax cut.
- The net Part A savings from the two proposals were approximately the same -- about $90 billion.

MEMORANDUM

TO: Laura Tyson and Carol Rasco **October 31, 1995**
FR: Chris J.
RE: Intra-Program Revenue Transfers and the Medicare Trust Fund

CC: Jennifer Klein and Gene Sperling

In virtually every major Medicare restructuring proposal that is now before the Congress (with the apparent exception of the Sabo/Stenholm plan), there are provisions to transfer Part B revenue into Part A and/or to transfer Part A liabilities into Part B. The Senate and House-passed Republican Reconciliation measures and both Democratic Leadership alternatives contain at least one of these transfer mechanisms.

Background

There are two driving forces pushing the Congress to alter traditional funding stream allocations within the program. First, the unprecedented and hyped up focus on the Medicare Trust Fund exhaustion date and the competitive desire to push back the date as far as possible. And second, the desire to reduce the burden of the Medicare cuts on Part A providers, particularly hospitals. (In some cases, there is also a desire to ensure that Part B providers, particularly physicians, carry their "fair share" of the load.)

The most utilized transfer mechanism is a straight general revenue transfer from Part B to Part A. It can be found in both Republican budget bills and in the Senate Democratic package. Like the Part A home health liability transfer (discussed below), this mechanism is being used to add years to the Trust Fund and to moderate the Part A cuts. The Part B transfer, however, makes Republicans more vulnerable to the critique that they could have just as easily reduced their tax cut and used the resulting excess general revenues to extend the Trust Fund exhaustion date.

The other transfer mechanism tapped by Republicans and Democrats in the House simply redirects the liability of some portion of home health care expenditures from Part A to Part B of the program. The home health transfer, which has some policy rationale but also has budgeting and administration complications, has the advantage of enabling policymakers to reduce the amount of traditional Part A cuts (from providers like hospitals) that are necessary to strengthen the Part A Trust Fund .

Attached are tables outlining the net impact on Medicare Part A that results from the transfers used by various Congressional bills. As one looks through these plans, the question arises as to whether we should consider supporting or advocating similar types of measures.

HOUSE REPUBLICAN RECONCILIATION ITEMS AFFECTING PART A SAVINGS
(Source: CBO, 10/20/95)

Source	7-year Savings Estimates (CBO estimates, 1996-2002)
Part A Provider Savings /1	$128.2
Repeal of OBRA '93 Social Security tax for HI	($36.6)
Subtotal /2	$91.6
Transfer General Revenues/Pay for OBRA '93 tax repeal /3	$36.6
Home Health Transfer from Part A to Part B /4	$54.3
Total Part A Budget Effects /5	$182.5

HOUSE DEMOCRATIC RECONCILIATION ITEMS AFFECTING PART A SAVINGS
Committee Action (Source: CBO, 10/12/95)

Source	7-year Savings Estimates (CBO estimates, 1996-2002)
Part A - Provider Savings /6	$68.4
Savings from the Transfer of Home Health to Part B /7	$59.0
Total Part A Budget Effects	$127.4

NOTE: The Lock-box provision would hold savings from Part B in a Trust Fund. There is no provision at this point to transfer of these monies to the HI Trust Fund. Beginning with FY 2003, the Secretary may expend funds in the Trust Fund, but only to the extent provided by Congress in advance through a specific amendment.

/1 Includes 60% of savings from these provisions: managed care, fraud and abuse, medical liability reform, regulatory relief, investigational devices, failsafe, and Medicare secondary payer

/2 In general, as passed out of the House Ways and Means Committee

/3 Transfer of Home Health from Part A to B would result in an increase of $54.3 billion in Part B expenditures

/4 This analysis assumes that the OBRA '93 tax repeal is separately paid for with non-Medicare provisions. If the money for the tax repeal were taken out of Medicare, this would effect the $270 billion Medicare savings estimate.

/5 As revised, pre-House floor action

/6 Includes fraud and abuse, managed care, and Medicare secondary payer provisions (assumes 60% of savings are Part A)

/7 The proposal limits home health visits under Part A to 120 visits. All subsequent visits would be paid by Part B. This results in a transfer of outlays from Part A to Part B.

SENATE RECONCILIATION ITEMS AFFECTING PART A SAVINGS
(Source: CBO, 10/20/95)

Source	7-year Savings Estimates (CBO estimates, 1996-2002)
Part A - Provider Savings/1	$120.5
Transfer of Certain Part B Savings/2	$67.5
Total Part A Budget Effects	$188.0

SENATE DEMOCRATIC RECONDILIATION ITEMS AFFECTING PART A SAVI
(Source: Preliminary CBO Staff Estimate, 10/25/95)

Source	7-year Savings Estimates (CBO estimates, 1996-200
Part A Provider Savings /1	$66
Transfer of Certain Part B Savings /3	$23
Total Part A Budget Effects	$90

/1 Includes managed care, fraud & abuse, Medicare secondary payer (assumes 60% savings are Part A)

/2 The savings resulting from the Part B premium ($44.2 billion), deductible ($10.5 billion), and high income premium ($12.8 billion) will be placed in the HI Trust Fund

/3 The proposal appropriates to the HI Trust Fund amounts equal to Part B savings.

REPUBLICAN BUDGET AND THE MEDICARE TRUST FUND

The Republicans are now claiming that their Medicare proposals push out the exhaustion date of the Medicare Trust Fund well beyond 2010. Is this true and, if so, how did they do this?

- First let's be clear: The Republicans never cared about Medicare Trust Fund exhaustion dates until well after they decided to pass a $245 billion tax cut.

- As the October 29th Washington Post article on the development of the Republican budget points out, the Congressional Majority never focused on the Trust Fund as an issue until after they concluded they needed $270 billion in Medicare cuts to pay for their budget and tax cut priorities.

- As reported out of the House Ways and Means Committee, the $270 billion Medicare cut included in the House Republican Budget assured that there would be sufficient reserves in the Trust Fund to pay for benefits through 2006. The President's $124 billion strengthened the Trust Fund for the same time period.

- The reason both proposals strengthen the Trust Fund through 2006 is because the net Part A savings they produced was approximately the same number -- about $90 billion. This fact clearly illustrated that the Republicans are much more interested in using Medicare as a piggy bank than they are in trying to "save" it.

- In response to criticism from the Congress and the President that only $90 billion of the $270 actually was being dedicated to strengthen the Trust Fund, the Republicans decided to play an unprecedented shell game with Part B general revenues and transfer savings from this program into the Part A Trust Fund. They did this to provide cover for their excessive Medicare and tax cut, as well as to be able to claim they were pushing back the Trust Fund exhaustion date beyond 2006.

- **The only point the Republicans' shell game proves, however, is that it would be just as feasible to reduce the Republicans' unnecessary tax cut and direct the savings from general revenue into the Trust Fund.**

HOUSE RECONCILIATION ITEMS AFFECTING PART A SAVINGS (Source: CBO, 10/20/95)

Source	7-year Savings Estimates (CBO estimates, 1996-2002)
Part A Provider Savings /1	$128.2
Repeal of OBRA '93 Social Security tax for HI	($36.6)
Subtotal /2	$91.6
Transfer General Revenues/Pay for OBRA '93 tax repeal /3	$36.6
Home Health Transfer from Part A to Part B /4	$54.3
Total Part A Budget Effects /5	$182.5

NOTE: The Lock-box provision would hold savings from Part B in a Trust Fund. There is no provision at this point to transfer of these monies to the HI Trust Fund. Beginning with FY 2003, the Secretary may expend funds in the Trust Fund, but only to the extent provided by Congress in advance through a specific amendment.

/1 Includes 60% of savings from these provisions: managed care, fraud and abuse, medical liability reform, regulatory relief, investigational devices, failsafe, and Medicare secondary payer

/2 In general, as passed out of the House Ways and Means Committee

/3 Transfer of Home Health from Part A to B would result in an increase of $54.3 billion in Part B expenditures

/4 This analysis assumes that the OBRA '93 tax repeal is separately paid for with non-Medicare provisions. If the money for the tax repeal were taken out of Medicare, this would affect the $270 billion Medicare savings estimate.

/5 As revised, pre-House floor action

SENATE RECONCILIATION ITEMS AFFECTING PART A SAVINGS (Source: CBO, 10/20/95)

Source	7-year Savings Estimates (CBO estimates, 1996-2002)
Part A – Provider Savings/1	$120.5
Transfer of Certain Part B Savings/2	$67.5
Total Part A Budget Effects	$188.0

/1 Includes managed care, fraud & abuse, Medicare secondary payer (assumes 60% savings are Part A)

/2 The savings resulting from the Part B premium ($44.2 billion), deductible ($10.5 billion), and high income premium ($12.8 billion) will be placed in the HI Trust Fund

A Fax Alert from The Concord Coalition

FAX ALERT · Number 9 October 12, 1995

IS THE GOP'S TRUST-FUND GAMBIT GOING AWRY?

With their new proposals to put Medicare savings in "lockboxes," Republicans—against the advice of their brightest staff—are pushing the budget debate into fantasy land. Their original wrong turn was the decision to justify Medicare cuts solely on the basis of trust-fund solvency. The further they go down this path, the harder it will be to bring the debate back to where it belongs: the issue of overall budget balance.

A Clever Stratagem

It all began with the irreconcilable goals announced in the GOP's Contract with America: balance the budget while at the same time enacting large tax cuts and pushing many large programs, most notably Social Security, off the table. Inevitably, a disproportionate share of the budget-cutting burden fell on Medicare.

By the time the budget resolution rolled around, it dawned on the Republicans that they were going to catch hell for singling out such a popular program for so much savings. It was then that the GOP leadership executed its trust-fund gambit. The trick was to say that the purpose of cutting Medicare wasn't really to balance the budget at all. It was to "save" the Medicare trust fund, which, according to its Trustees, faces near-term bankruptcy and colossal long-term deficits.

At first, this seemed like a clever idea. But then the stratagem began to unravel.

For one thing, it smacked of expediency. Medicare's trust-fund troubles, after all, were hardly hot news. For another, as Democrats were eager to point out, the solvency issue only pertained to the Hospital Insurance (HI) trust fund. The gambit thus failed to justify the Republicans' proposed savings in Medicare's Supplementary Medical Insurance (SMI) program.

At this point, the Republicans might have come clean with the public and steered the debate back to the real issue: balancing the budget. After all, SMI is growing even faster than HI—and the only reason its trust fund does not face imminent bankruptcy is because accounting conventions assume that general revenues will plug any funding gap, no matter how large.

Instead, Republicans keep pushing their gambit toward a ludicrous conclusion. The Senate would reallocate much of the proposed SMI savings to the HI trust fund. The House would create yet another trust fund which would be credited with all of the SMI savings.

...But an Unwinnable End Game

Both transactions are cynically devoid of economic meaning. By transferring Treasury IOUs to the HI trust fund, the Senate would indeed improve HI's actuarial balance. But it would do so through a paper transaction entirely internal to government! When HI's Trustees redeem the IOUs, Treasury will have to raise taxes or borrow from the public to honor them. The House proposal doesn't even do this much. It merely appropriates SMI savings into a special Treasury account where—like savings credited to the President's much-ridiculed 1993 Deficit Reduction Fund—the money will promptly vanish.

In truth, Congress can strengthen the HI trust fund any time at the stroke of a pen. It did so in 1993 by crediting it with a new tier of Social Security benefit taxes (which it now proposes to repeal). If Congress also wants to credit the fund with unrelated SMI savings, fine. But don't stop there. Why not throw in the GOP savings in farm aid and AFDC? Or why not go even further and have Treasury write a check for several trillion dollars to the HI trust fund so we won't have to worry about it again for the next half century?

This reductio ad absurdum unmasks the charade of trust-fund accounting. Because all federal revenues are fungible, the balance of any particular trust fund is economically irrelevant. What matters is the net difference between all federal taxing and all federal spending—in other words, the consolidated budget deficit.

Which brings us back again to where we all started: balancing the budget. Yes, large cuts in Medicare are needed to accomplish this goal! But the issue should be argued on its own merits and in the context of other spending and tax proposals. The Republicans' Medicare lockbox only makes them look ridiculous. It won't fool the public for long and it won't change the bottom line.■

The Concord Coalition, 1019 19th Street, NW, Suite 810, Washington, DC 20036 • Annual Subscription: $25
phone: 202-467-6222 • fax: 202-467-6333 • CompuServe Forum: Go Concord
Concord Executive Director: Martha Phillips • Facing Facts Editors: Neil Howe and Richard Jackson

Medicare Lockboxes in House and Senate Reconciliation Bills

Both the House and Senate reconciliation bills include new Medicare "lockboxes." It is claimed that these "lockboxes" separate the Part B Medicare spending cuts from other budgetary transactions and that they preclude these Medicare cuts from being used to finance tax cuts. Nothing could be farther from the truth. Both lockboxes are gimmicks and they do not in any way preclude the Part B Medicare cuts from being used to finance tax cuts.

The absurdity of these lockboxes is made clear by the attached fax alert from the non-partisan Concord Coalition, chaired by former Senators Warren Rudman and Paul Tsongas. The alert states, "With their new proposals to put Medicare savings in 'lockboxes,' Republicans -- against the advice of their brightest staff -- are pushing the budget debate into fantasy land."

The House and Senate lockboxes differ in their specifics and are analyzed below:

House Lockbox

The House lockbox establishes a brand new Trust Fund. The House reconciliation bill transfers money out of general revenues and into this new Trust Fund: the amount transferred is equal to the amount saved from all of the Medicare Part B spending cuts contained in the reconciliation bill. No money can be transferred out of the lockbox until 2003. The lockbox advocates claim that this prohibition ensures that none of the Medicare Part B savings can be used to finance tax cuts.

This claim is nonsense, as the Concord Coalition analysis shows. All Trust Funds are counted as part of the unified Federal budget and the unified Federal deficit. Reductions in Trust Fund spending show up as reduced Federal expenditures in the Federal budget in the same way that any other spending cuts do. By reducing overall spending, they enable tax cuts to be made without sacrificing the goal of a balanced budget.

There is another way to demonstrate the absurdity of the new Trust Fund in the House bill. Since the monies in this new Trust Fund cannot be spent before 2003, a surplus builds up during that period. However, the surpluses in all Federal Trust Funds are lent back to the general fund of the Treasury in exchange for IOUs. When money is lent back to the general fund, it can be spent on other programs or be used to offset the cost of tax cuts. Therefore, the lockbox's Trust Fund provides no protection against using the Medicare Part B savings to pay for tax cuts.

Senate Lockbox

The Senate reconciliation bill does not create a new Trust Fund. Rather it transfers money out of general revenues and into the Medicare Part A Trust Fund: the amount to be transferred equals the savings in the reconciliation bill resulting from increases in the Medicare Part B premium and deductible.

Transferring money into the Medicare Part A Trust Fund does not preclude its use for tax cuts any more than transferring money into the new House Trust Fund does. As noted above, all Trust Fund transactions are included in the unified budget. Therefore, the savings resulting from the Senate's premium and deductible increases free up room in the unified budget that can be used for tax cuts. Moreover, surpluses in the Part A Trust Fund are lent back to the general fund where they can be used to offset the tax cuts.

The Senate lockbox provisions do have the effect of extending the solvency of the Part A Trust Fund some. The absurdity of doing this by transferring general revenues into the Part A Trust Fund is made clear by the following analysis in the Concord Coalition fax alert:

> "If Congress also wants to credit the (Medicare Part A) fund with unrelated (Part B) savings, fine. But don't stop there. Why not throw in the GOP savings in farm aid and AFDC? Or why not go even further and have Treasury write a check for several trillion dollars to the HI Trust Fund so we won't have to worry about it for the next half century."

The Concord Coalition statement speaks for itself.

THE PRESIDENT'S BALANCED BUDGET PLAN AND THE HOUSE REPUBLICAN PLAN BOTH EXTEND THE SOLVENCY OF THE MEDICARE TRUST FUND THROUGH 2006 --

BUT THE PRESIDENT'S PLAN DOES IT WITH LESS THAN ONE-HALF THE CUTS.

- House Republicans claim that their balanced budget plan would extend the solvency of the Medicare Hospital Insurance Trust Fund (Part A) beyond 2010. That is false.

- In fact, the Trust Fund's solvency would be extended until exactly the same year -- 2006 -- **under both the President's balanced-budget plan and the House Republican plan**, according to the career Health Care Financing Administration (HCFA) actuaries, **as well as the Republican staff of the House Ways and Means Committee.**

- The original Republican analysis ignores the fact that the House plan contains legislation already passed by the House which **reduces the amount of income going into the Medicare Part A Trust Fund**. The legislation repeals a provision of the President's 1993 deficit-reduction plan that helped **strengthen** the Trust Fund.

- Once this legislation is factored in, the HCFA actuaries project that **the House balanced budget plan will delay solvency until the year 2006, the same year as the President's plan.**

- **This fact was acknowledged publicly by the House Ways and Means Committee Republican counsel during the Committee's mark-up of Medicare legislation.**

- House Republicans are calling for more than twice the Medicare cuts contained in the President's plan, yet extending Trust Fund solvency until exactly the same year.

- Clearly, the much deeper cuts are needed not to preserve the Trust Fund but to facilitate large tax cuts, primarily for those who do not need them.

- The House-passed provision that reduces the income of the Part A Trust Fund would repeal the increase in taxation of Social Security benefits for the highest-income 13 percent of Social Security recipients. The proceeds from this increase are currently placed into the Medicare Part A Trust Fund, as required by the President's 1993 deficit-reduction legislation.

- Ironically, while the Republicans are claiming to make funding of Medicare fairer by charging higher Medicare premiums to affluent senior citizens through means-testing, they are undoing the effect of that provision through a back door tax cut to nearly the same group, reducing means-tested revenues that benefit the Part A Trust Fund.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care Financing Administration

The Administrator
Washington, D.C. 20201

October 11, 1995

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

Dear Congressman Gibbons:

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

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

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

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

Sincerely,

Bruce C. Vladeck,
Administrator

Attachment

Medicare Part A "Net" Savings Estimates

Net Effect of HR 2425 Medicare Part A Savers and Repeal of OBRA '93 Provision[1]

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

Based on CBO estimates 10/2/95

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

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

THE MEDICARE "LOCK BOX"

THE CLAIM:

Republicans claim that their Medicare cuts are not being used to pay for their $245 billion tax cut. House Republicans say that to prove that Medicare cuts are for Medicare alone, they plan to vote on Medicare cuts separately. Senate Republicans passed an amendment in the Finance Committee creating a so-called "lock box" to put all of the Part B beneficiary savings into the Part A Trust Fund.

THE FACTS:

- Both of these proposals are merely gimmicks.

- The Republicans could lower their Medicare cut by $150 billion -- take away every penny of extra premium increase, extra deductible -- by simply lowering their tax cut by $150 billion. No accounting gimmick or separate account can hide that fact.

- Their reasoning is like a person who spends $5,000 less on health care for his family to pay for a $5,000 Las Vegas vacation but denies that he is cutting health care to pay for a vacation because he promises to put *that* $5,000 in a special trust account to pay for food and rent. Anyway you slice it, if he didn't have to pay for a $5,000 vacation, he wouldn't have to spend $5,000 less on health care for his family. And, anyway you slice it, if the Republicans didn't have to pay for a $245 billion tax cut, they wouldn't have to cut $270 billion from Medicare -- $150 billion more than is needed to secure the trust fund.

- The Senate Finance Committee amendment is also a gimmick. They create a so-called "lock box" to put all of the Part B beneficiary savings into Part A and claim that this means they will use Medicare cuts to save the trust fund, not to pay for their tax cut.

- By doing this, they are admitting that about $150 billion of their Medicare cuts go to general revenues to pay for the tax cut -- not to strengthen the Medicare Trust Fund. Then they say that they will transfer that $150 billion from general revenues to the trust fund.

- One could just as easily say that revenue from the income tax, for example, should go into the Medicare Trust Fund, but that would leave the government with nothing to pay for defense, education or the environment.

- This gimmick can not hide the fact that Republicans need $270 billion from Medicare because they want to give a $245 billion tax cut. If they simply lowered their tax cut by $150 billion, they could lower their extreme Medicare cuts by the same amount.

October 7, 1995

To: Chris Jennings, Barry Toiv, Alan Cohen

From: Gene Sperling

Subject: Medicare Lock Box Answers

Q: HOUSE REPUBLICANS SAY THAT THE MEDICARE CUTS ARE NOT TO PAY FOR A TAX CUT AND TO PROVE IT THEY ARE GOING TO VOTE ON MEDICARE CUTS SEPARATELY TO SHOW THAT IT IS FOR MEDICARE ALONE?R

A: Here are the facts no one can dispute: they could lower their Medicare cut by $150 billion -- take away every penny of extra premium increase, extra deductible -- by simply lowering their tax cut by $150 billion. No accounting gimmick; no separate account can hide that fact.

The Republicans a are like a person who cuts $5000 in health care for their family for a $5000 Las Vegas vacation, and when he is caught, denies he is cutting health care to pay for a vacation, because he promises to put *that* $5000 in a special trust account to pay for food and rent. Anyway you slice it, if that guy didn't have to pay for a $5,000 Las Vegas vacation, he wouldn't have to cut $5,000 in health care for his family. And anyway you slice it, if the Republicans didn't have to pay for a $245 billion tax cut going largely to the wealthy, they would not have to cut an extra $270 billion of Medicare. [$150 billion more than is needed to secure the Trust Fund].

Q: BUT REPUBLICANS IN THE SENATE SAY THAT THEY ARE CUTTING MEDICARE PART B AND PUTTING ALL OF THAT INTO THE MEDICARE TRUST FUND. DOESN'T THAT ANSWER YOUR CHARGE?

A: [Repeat] Here are the facts no one can dispute: they could lower their Medicare cut by $150 billion -- take away every penny of extra premium increase, extra deductible -- by simply lowering their tax cut by $150 billion. No accounting gimmick; no separate account can hide that fact.

Indeed, they are admitting that about $150 billion of their Medicare go to the general fund that is used for paying for a tax cut -- not paying for the Medicare Trust Fund. Then they say that they will transfer that $150 billion from general fund to the Medicare Trust Fund. Well they could do the same good for the Trust Fund by lowering taxes by $150 billion so that they could lower their extreme Medicare cut by $150 billion.