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*Gail Wilensky editorial*  
*HICFA Administrator under Bush*

## SOUNDING BOARD

### THE SCORE ON MEDICARE REFORM — MINUS THE HYPE AND HYPERBOLE

WITH charges and countercharges about impending Medicare reforms at a feverish pitch, the substantive issues in the debate have become increasingly obscured. This highly charged climate has left most Americans confused about the consequences of the proposed changes and needlessly fearful about the future of a program that, by most measures, has been immensely popular with older adults and their families.

With Medicare's trust fund facing insolvency by the year 2002 and pressure on the federal budget from the costs of Medicare Part B, which covers physicians' and outpatient services and is primarily funded directly from general revenue, the Republican leadership in Congress has rightly recognized the need for reforms in the program. There is much that is good in the reform proposals. There are also important policy options that, if adopted, could assuage some of the concern that has been aroused about the proposals. Unfortunately, in the increasingly partisan bickering that has developed over the reforms, bickering that will only get worse as we approach the 1996 presidential election, it is unlikely that these remedies will receive much serious attention, particularly from Democrats.

#### MEETING A NEED, BUT OUT OF CONTROL

Since its inception more than 30 years ago, Medicare has been enormously popular for two main reasons. First and foremost, this federal program has basically solved the problems it was designed to address. Before 1965, large numbers of older adults had difficulty purchasing health insurance and receiving adequate health care. Medicare gave all elderly people an entitlement to a package of benefits covering a wide range of acute care services. Second, Medicare has placed far fewer constraints on older adults' use of health care than is the case with most private health insurance policies.

The irony is that the seeds of the program's current fiscal woes are grounded in its popularity. Currently, there are few incentives for the elderly to seek cost-effective care. Although Medicare does not cover all expenses in the areas for which it provides coverage, the

deductibles and payments are largely ineffective as cost-containment measures because more than 85 percent of Medicare beneficiaries have supplementary private insurance or are also covered by Medicaid. Physicians and hospitals also have few incentives to limit spending on services for older adults. Medicare's payment policy currently encourages hospitals to "game" the way patients' illnesses are coded to increase their revenues and to switch services from the inpatient to the outpatient setting, where Medicare has considerably less direct control over payments. Medicare also rewards physicians for doing more rather than less, even when less may be as good or better. The result is that the existing incentives for both beneficiaries and providers of health care services have driven Medicare to the brink of bankruptcy.

Most discussions of Medicare reform have centered on the impending insolvency of the Hospital Insurance Trust Fund that finances services provided under Medicare Part A, including inpatient hospital care, home care, and skilled nursing care. Actuaries estimate that, at present rates of spending, we will exhaust the trust fund's surplus in seven years. Because there is no legal authority for the government to continue funding Medicare under such conditions, the impending bankruptcy forces a decision — either to reduce inflation in Medicare spending or to increase contributions to the trust fund.

Supplementary Medical Insurance, or Medicare Part B, which covers physicians' services, outpatient hospital services, clinical laboratory services, and medical equipment, is much less discussed but, in some ways, is an even more serious issue. Part B represents 40 percent of total Medicare spending, and because 70 percent of its funding comes directly from the U.S. Treasury, its effect on the federal budget is even more direct than that of Part A. In addition, spending on Medicare Part B is growing 50 percent faster than spending on Part A. Consequently, it is futile to consider reforms of Medicare Part A while ignoring Part B.

In the short run, the problem is how to achieve a sustainable level of overall per-person spending on Medicare. The current rate of growth in spending is 10.5 percent per year, which represents an increase of 9 percent per person covered. (The increase in the Medicare

population accounts for the other 1.5 percent of the growth in spending.) By contrast, the rest of the federal budget is growing at a rate of less than 4 percent per year, exclusive of health care and interest on the debt. The Medicare growth rate is thus a major drain on the budget and exacerbates the federal deficit at a time when Congress and the President have promised to reduce the deficit drastically or even eliminate it. In the long run, the problem is not only achieving a sustainable level of spending per beneficiary but also accommodating the impending large-scale spending increases that will be caused by the retirement of the baby boomers.

#### **COST-CUTTING LESSONS FROM THE PRIVATE SECTOR**

The growth in Medicare spending continues at double-digit rates at a time when spending on health care in the private sector appears to have slowed. According to the latest figures from the Congressional Budget Office, private-sector spending on health care grew at about 5 percent in 1994, while the growth in Medicare spending exceeded 10 percent.

Although there is much that we do not yet understand about the changes occurring in the private sector, we can observe that employers have used a variety of strategies to reduce the rate of growth in health care spending. These include a number of managed-care and integrated-delivery-system strategies and medical savings accounts, even while old-fashioned indemnity insurance has been retained. Whether these changes will permit lower rates of spending to be sustained is a matter of dispute. But the current experience of the private sector offers some promise and points to directions for productive reforms in Medicare.

Unlike the private sector, Medicare remains primarily an a la carte, fee-for-service program with government-administered pricing and expenditure controls on physicians. There is both limited availability of alternatives to fee-for-service medical care and limited participation in the managed-care plans that are available. Projections for 1995 indicate that 6.6 percent of Medicare enrollees, or 2.5 million elderly people, will be enrolled in health maintenance organizations (HMOs), the only available alternative to fee-for-service care. The growth in enrollment in HMOs has been rapid over the past several years. Still, in both absolute and relative terms, the vast majority of beneficiaries remain in traditional Medicare.

An increasing number of new Medicare beneficiaries, of course, have workplace experience as members of a managed-care plan. Such people are likely to be more comfortable than others about choosing managed care when they enroll in Medicare. But if beneficiaries are to migrate in substantially greater numbers to managed-care plans and away from traditional fee-for-service programs, then several barriers must be removed. Most important, there needs to be an increase in the types of non-HMO managed-care plans and other options available to the Medicare population. But availability alone is unlikely to be sufficient. If there is to be a substan-

tial shift away from traditional Medicare, the program must change the incentives for the elderly, the providers, or both.

#### **STRUCTURE AND STRATEGIES FOR A REFORMED MEDICARE PROGRAM**

The present Medicare program has relied on direct cost control — government-administered pricing or pricing limits and direct controls on overall physician spending. One possible strategy is to continue with the current system but extend it to home care, skilled nursing facilities, clinical laboratories, and other parts of Medicare. Although such changes would curtail spending more effectively than in the past, older adults and the people who provide them with services would continue to have incentives to increase the amount of care provided.

A second and far preferable strategy is to offer Medicare beneficiaries more choice in the health care plans available to them and to ensure that the government pays the same amount no matter what plan a beneficiary chooses. Older Americans who want to receive care in more expensive settings or who want to buy more benefits than come with the basic plan may do so, but at their own expense. The example that comes closest to this strategy is the Federal Employee Health Benefits Plan (FEHBP). Under FEHBP, the federal government sets its dollar contribution to the premium, offers a large choice of plans to its employees during an annual open-enrollment period, makes information available to its employees to help them choose wisely (supplemented by information on the plans that is put together by private entrepreneurs and available to employees at a modest price), and monitors the plans to make sure they are fulfilling their contractual obligations.

Although they by no means fit this description perfectly, the Republican plans for Medicare recently passed by the House and Senate closely approximate the second strategy. With a few limited, but politically difficult, changes, the plans could resemble an improved FEHBP. The Republican legislation would substantially expand the types of health care plan that can be offered to elderly people. The government's per-person payment to these plans would be fixed according to the beneficiary's age, sex, geographic location, and supposedly, health status. Medicare would provide information to elderly people regarding enrollment and disenrollment rates, consumer satisfaction, benefits, medical outcomes, and the quality of care. The principal omission from the proposals is that the plan does not call for a similar equivalent payment for beneficiaries who want to stay in the traditional Medicare program. Since this group now accounts for more than 90 percent of the elderly, it is not a minor omission.

The reason for the omission is clear and is politically charged. Even before Republicans introduced their plan, Democrats claimed that Republican reform efforts would force the elderly out of fee-for-service Medicare or make their payments higher if they stayed in the traditional program. Democrats reasoned that be-

cause the capitation rate is projected to grow at about 5 percent per person per year over the next seven years, because the traditional Medicare program is projected to grow at about 9 percent per person per year under current law, and because incentives under the traditional program would remain the same, elderly people would undoubtedly have to pay more over time if they stayed in traditional Medicare and were assigned a capitation payment equal to the amount available for other plans.

To avoid this political trap, Republicans have adopted what they term "fail-safe" spending enforcement that affects both the traditional program and its alternatives. If spending under fee-for-service Medicare started to exceed the projected spending goal in a particular year, reimbursement rates would be reduced to keep spending at projected levels. Spending would thus be kept the same in both the managed-care sector and the traditional sector. A crucial difference is that in the traditional program, any excess spending would come from the providers' pockets; in the managed-care sector it would come from beneficiaries' pockets.

Republicans expect that if beneficiaries are offered more choices, substantial numbers of them will opt to leave the traditional Medicare program, where they have full freedom of choice of providers but where they also typically pay \$1,000 per year for supplemental Medicare insurance. If that does not happen, there is a good chance that, over time, many of the physicians and hospitals who provide care to the elderly will put together different kinds of plans under which they assume full financial risk and will take their patients with them into such plans. In any case, the fail-safe mechanism ensures that the spending goals will be met even if most Medicare beneficiaries choose to remain in fee-for-service Medicare.

#### FOUR KEY ISSUES

The direction of change embodied in the Republican Medicare reforms will improve the program. Still, there are four areas of concern, even for those of us who support the proposed changes.

The most serious concern has to do with risk selection and the need to find adequate factors for adjusting risk beyond the ones currently used by Medicare (i.e., age, sex, and institutional status). Risk selection occurs when people considered to be at better-than-average or worse-than-average risk for health problems end up in particular health plans, including traditional Medicare. Risk selection can occur by the actions of either beneficiaries or plans, or it can occur in the short term just by bad luck.

Health care spending is very concentrated. In Medicare, 10 percent of beneficiaries account for about 50 percent of the costs. If Medicare pays a plan as if all the beneficiaries had average health risks when, in fact, they may be either generally healthier or generally sicker than average, the plan will find itself making money or losing money — not because of how efficiently it runs its business but because of its enrollees' health status.

The problem is not risk selection but the failure to adjust for it. The question is whether Medicare can find ways to adjust its payments to plans according to the distribution of the health risks among the plans' enrollees. If Medicare cannot make adequate adjustments, any choice will undo the risk pooling fundamental to insurance plans. Both the administration and Congress are sponsoring work in this area, but more needs to be done. The importance of the effort cannot be overemphasized. Locking people into their choices for a specified period of time will help mitigate problems caused by risk selection.

A second concern involves potential marketing abuses that could arise with new choices among plans. Having the government review and approve marketing information is current practice and is expected to continue. Marketing abuses would be a smaller issue if the federal government undertook the actual enrollment process, as it does with the FEHBP, instead of having the plans market themselves directly to the elderly, although this might substantially slow the growth of some capitated plans.

A third concern has to do with the status of the low-income elderly, given proposed congressional reforms in Medicaid. Suffice it to say that most states are expected to continue to fund Medicaid programs that fill gaps in traditional Medicare coverage for the states' lowest-income populations, but to restructure these programs. Ultimately, this concern or the pressures from the baby boomers may cause policy makers to reconsider whether the universal entitlement to health care without regard for means that is embodied in Medicare is best. For now, no one stands ready to make that decision.

A fourth concern is whether the 5 percent per person per year rate of growth in health care spending is adequate to deliver the benefits Medicare has promised to elderly people. Assuming an inflation rate of 2.5 to 3 percent, this means a growth in real spending of 2 to 2.5 percent per person. That is not unreasonable, but it is a lower rate of growth than in the past. In the short run, eliminating some of the excess capacity in the health care sector can help lower spending rates. In the long run, a central question is whether the changes in financial incentives and purchasing pressure in the public and private sectors will help produce new forms of medical technology that reduce costs rather than mainly those that increase health care capabilities and costs.

#### THE POLITICS OF REFORM

In the current high-stakes political battle over Medicare reform, Republicans appear to understand the need to keep tabs on the congressional vote count, to involve major stakeholders (or special-interest groups) in devising the final plan, and to influence and use public opinion to support their efforts at reform. Republicans also understand the power of a presidential veto.

Opposition to Republican reform efforts remains strong among Democrats and some stakeholders, how-

ever. Democrats understand the political importance of having a Republican majority poised to make the most substantial changes to Medicare since the program's inception. Politically, the President had to veto the Medicare bill at least once, as he did early this month.

The most interesting question involves the dynamics of the political situation after the inevitable first presidential veto. Congress will produce a somewhat altered second bill. It is unclear whether there will be much Democratic involvement in the deliberations following the veto. Democrats were only minimally involved the first time, and it is not likely that they will have an appreciably larger role in late negotiations. Even if the Republican leadership wanted to consider substantial compromises in order to escape a veto, it is unclear whether Republicans could keep their right wing on board with anything other than relatively minor changes. But since the fight between Republicans and Democrats is mainly about money to be saved,

rather than philosophy, final passage may be easier to accomplish than it would be otherwise.

The second Medicare reform package that emerges from Congress will be fundamentally similar, in terms of scope and magnitude, to the first version. To the extent that Medicare reforms are made part of a comprehensive budget-reconciliation bill, the President will find it increasingly difficult to veto the legislation, although Medicaid may become a more serious stumbling block.

My bottom-line prediction: President Bill Clinton will sign — reluctantly — a second or third Medicare reform bill, and Medicare reform will become a major issue in the 1996 election, along with deficit reduction, the balanced budget, and the economy. It is a high-risk strategy for the Republicans to press their reform package, but theirs is not a bad Medicare reform bill.

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### ASSESSING THE PROPOSED MEDICARE REFORMS

THE mid-November Republican budget would have reduced federal Medicare expenditures by \$270 billion over the next seven years. That target was not the product of an analysis of the benefits and costs of Medicare. There was no examination of Medicare that concluded that during the next seven years the federal government could or should reduce expenditures by \$270 billion or, for that matter, by any other number.

The \$270 billion figure was an artifact. It was determined by considerations unrelated to Medicare. Had the Republican leadership decided to balance the budget in, say, five years instead of seven (even with the suggested \$245 billion reduction in tax revenues), the Medicare "savings" would have had to be even larger. Had the leadership decided to achieve a balanced budget in the year 2004 rather than 2002, smaller savings would have sufficed. Had the proposed tax reductions been postponed or eliminated, Medicare would not have had to face such deep cuts.

The \$270 billion figure was determined by the desire to reduce tax payments by \$245 billion rather than some other amount, the desire to achieve a balanced budget by 2002 rather than some other year, and the political desires that ruled out substantial cutbacks in various other government programs and activities. The very size of Medicare and the fact that without new legislation the Part A trust fund would be depleted shortly after the turn of the century made Medicare extremely vulnerable (even to changes that have nothing to do with Part A trust funds but much to do with the federal budget).

Thus, a number was plucked out of the air and presented as if it were necessary to ensure the survival of Medicare. The proposed changes far exceed what would be necessary for the program's survival and largely af-

fect Part B, anyway. The changes are thus unrelated to what is necessary to "save" Medicare. Instead, they are needed to make up for — that is, to "save" — Republican-sponsored changes to the tax code. Whether this tradeoff is worthwhile requires an analytic discussion of values, which regrettably has not taken place. Nor has any other serious and extensive set of hearings, discussions, and debates taken place. The days when President Lyndon Johnson said, "Come, let us reason together" are long gone. Conservatives would do well to remember that without hearings, debate, and above all, time, something like the Clinton health program might well have been enacted. Surely, the lesson drawn should not be that proponents of particular legislation should avoid hearings and debate. Public discussion may have its costs — now for one side, tomorrow for the other — but the benefits of the sometimes inefficient democratic process far exceed its costs.

Hearings and debate would be called for even if all the suggested changes in Medicare were beneficial. In fact, however, they are not. Why do many analysts believe the changes would be harmful to the public's health? What substantive criticisms can be offered?

The first point concerns the size of the cuts. I write "cuts," though we should understand that even with the proposed changes, Medicare will grow during the next seven years. Nevertheless, the tradition of budget discussions permits us (as it permitted those who were troubled when Defense Department appropriations did not keep pace with inflation) to speak of cuts. The proposed changes to Medicare would reduce the rate of growth that has been projected as a consequence of inflation, increases in the number and average age of beneficiaries, and changes in the intensity of care (largely related to the expansion of technological capabilities). Thus, the projected increases in Medicare expenditures are not tied to an expansion in benefits or program coverage. Rather, they are the product of exogenous forces

FYI  
From  
Chris Jennings

# Look Who's Talking Health C

**T**HIS FALL THE COUNTRY WILL BE TALKING health care again — or at least should be talking about it — as Congress moves to change the principles on which Medicare and Medicaid were established 30 years ago. A writer with a taste for irony could scarcely conceive a better plot, and as one of those who wrote the Clinton plan, I confess it strikes me as more than ironic.

Two years ago, Republicans were denouncing the secrecy surrounding the President's health care task force. This summer, Republicans have been meeting "behind closed doors" on a Medicare proposal scheduled to be released later this month, only a few weeks before Congress votes on it, thereby avoiding independent analysis of the costs, mobilization by opponents and other inconvenient aspects of a long national debate. Two years ago, the Republicans rang alarms about the Clinton plan's emphasis on managed care. Now the Republicans' own plans for Medicare and Medicaid emphasize managed care.

But superficial similarities are deceiving. The reform plans of 1993 generally aimed to extend rights to health coverage and health care; the Republican proposals this year would retract rights that already exist. The debate two years ago reflected a widespread belief that the health care system needed reform. The Republicans, like many in the business world, now begin with the happy thought that the system is reforming itself and that Government needs to be more like the private sector.

The health care system is certainly going through profound change. Health maintenance organizations and other forms of managed care are expanding rapidly. As managed care grows, demand for hospital care shrinks. Hospitals are merging, closing beds and cutting jobs; some new buildings stand vacant. H.M.O.'s are limiting specialty referrals and lucrative procedures; the incomes of specialists in some areas are dropping, and primary-care practitioners are in demand. In a stunning shift, once stubbornly independent physicians are selling their practices to hospitals and insurers or taking a fixed payment per enrolled patient and accepting the discipline of the corporation.

Partly as a result of these developments, health care seems less of a problem to employers. Companies that five years ago faced double-digit inflation in health benefits have seen costs go flat. The success of

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ILLUSTRATION BY PETER DE SEVE

# e Reform Now

An author of the Clinton plan welcomes Republicans to the problem. A bigger problem: Their solution. BY PAUL STARR

managed care in controlling costs confirms a key premise of the Clinton plan and other managed-competition proposals: substantial savings are feasible. The aim of reform, however, was not merely to hold down costs, but to give people better value for their money.

Whether that is happening is hard to say; there is no national index of the quality of care. The shift to managed care has disrupted many Americans' relationships with their doctors. Many employers have also cut costs simply by requiring their employees to pay a larger share of the bill, and some have stopped covering dependents. A big part of the problem has always been lack of coverage for millions of Americans. Now, declining employer-provided coverage has left more people uninsured — nearly 41 million at any one time, up by 2 million in 1994.

Under the Clinton plan and other reform proposals, hospitals and specialists would also have borne the brunt of cost containment. For decades, hospitals had overbuilt and physicians had overspecialized; a correction, unavoidably painful, was coming. The changes taking place today, however, do not embody the values of progressive reform. The savings from rationalizing the system are not being applied to make it more inclusive. A new system of corporate health care is emerging without the new framework of rights and obligations that reform would have brought; corporate interests consequently have the field almost entirely to themselves.

Employers have no obligations to pay any share of health insurance or to offer their employees a range of choices. Insurers can still cherry-pick the healthy and shun the sick, and for the most part, they have no obligation to cover pre-existing conditions. They do not have to disclose to doctors, let alone patients, their rules for denying coverage, and when they refuse to approve a service or a provider, patients find their rights are limited.

And the root problem of health coverage remains unsolved. Employment-based health insurance is now in its second decade of steady decline, reflecting a broader decline of real wages and increasing reliance on contingent workers. If it weren't for the expansion of Medicaid during the 1980's, we would have 50 million uninsured now. During the rest of the 90's, employer-provided coverage is likely to decline further, and Medicaid will contract. Americans will then have even less security than they do now about affording health care when illness strikes.

Only by ignoring these realities is it possible to say that the private health system is reforming itself. The emerging health care marketplace, in fact, is likely to reduce access to care for the uninsured. Hospitals and clinics have traditionally shifted the cost of charity to insured patients, who

have consequently paid a hidden "tax" in their bills. Managed-care plans, however, refuse to pay that tax; they demand discounts, and if one hospital refuses, the plans contract with another. The hospital and clinic that provides charity care now commits an economic sin: it risks making itself uncompetitive. During the national debate, opponents of reform often said lack of insurance didn't matter much because doctors and hospitals still took care of the uninsured. This was never entirely true — the uninsured get less care — but the emerging market makes our old Robin Hood system impossible to maintain.

The emerging market also isn't going to satisfy concerns about individual choice. About half the workers who receive coverage (including most insured employees in small businesses) have no choice among alternative health plans. In the old days, it hardly mattered that the employer picked the insurer since the plans pretty much covered all providers. But when employers now adopt managed care, they effectively choose doctors and hospitals for workers and their families. My employer doesn't determine where I shop, live or send my children to school. Why should my employer pick my health plan and my doctor? But, increasingly, that's how Americans get their health care — and not through a system of unlimited free choice, which critics of reform often conjure up as if it described the present.

UNFORTUNATELY, THE OLD SYSTEM OF unconstrained health insurance that covered almost all costs is gone. The Clinton plan would have shifted the choice of health plans from employers to families and required plans and providers to disclose information that would help people choose sensibly. The Clinton plan also sought to open up a wide menu of options at different prices, including fee-for-service plans. The irony is overwhelming. Many people who opposed reform because they believed it would restrict their choices now face a system that is becoming far more restrictive.

Perhaps nowhere is the irony greater than for Medicare. Many of the elderly also opposed reform for fear they would lose benefits and freedom of choice: "Don't let the Government get hold of my Medicare" was one beneficiary's much-reported plea to a Congressman. In fact, while adding prescription drug benefits, the Clinton plan did not fundamentally change the structure of Medicare.

Such a change is exactly the aim, however, of a Republican Congress now committed to cutting \$270 billion from the program over seven years. A draft Republican proposal would encourage the elderly to join H.M.O.'s by charging them more for both Medicare and the supplementary (Medigap) plans they buy to cover out-of-pocket costs.

Many Republicans want to cap Medicare expenditures but uncap provider charges. Those policies alone would make it impossible to assure that the elderly continue to receive Medicare's package of benefits. Instead of defined benefits, the elderly would get a fixed amount of money — often described as a voucher — which over time might not buy the insurance they now receive as an entitlement. Ending Medicare as we know it was not, I recall, a campaign slogan, but it is plainly where this policy is headed.

Ending Medicaid as we know it is an immediate prospect. Republicans want to replace Medicaid with block grants that would give states an average of 30 percent less money in the year 2002 than Medicaid would. Welfare is currently the basis on which many of the poor now qualify for Medicaid. The clear prospect is that many of the poor who lose eligibility for welfare would also lose eligibility for medical coverage.

The big losers would also include teaching hospitals and medical schools. They are being hit by what is technically known as a double whammy. First, the rise of managed care threatens their clinical revenues; managed-care plans use hospitals less, but also shift patients to lower-cost institutions. Second, Republican budget plans would end subsidies for medical education that have come with Medicare hospital payments. During the debate over the Clinton plan, the medical schools and teaching hospitals clamored that they weren't being treated well enough. Actually, they did quite well, especially compared to the retrenchment they now face.

Budget plans come and go. The historic importance of what is happening is the shift in legal rights. Health care reform would have given Americans a right to coverage and a variety of other rights in relation to employers, insurers and health care providers. Converting Medicare into vouchers and Medicaid into block grants eliminates the legal rights to medical benefits that the elderly and some poor currently have.

This movement to eliminate rights is not a cautious version of reform; it is the opposite, *reverse reform*, a radical version of that. During the debate over the Clinton plan, many of its critics said that we should control costs and only then extend coverage to the uninsured. The thrust of policy now, however, is to cut costs by *retracting* rights to coverage.

There is still talk of legislation that would set some minimal Federal standards for health insurance, which might benefit people with pre-existing conditions. But there is no money, at least not in the current Congress, for extending coverage to the uninsured. In opinion polls, Americans keep saying that health care reform is a high priority. I cannot believe that reverse reform is what they have in mind. ■

**Businesses Worried About Republican Medicare Plan.** Yesterday's *Wall Street Journal* reported that the Business Roundtable, the National Association of Manufacturers and other business leaders are concerned about the Republican Medicare proposal.

- Under the proposal, workers in company-sponsored managed care plans would be given the option to stay in those plans rather than join Medicare after retirement. Medicare would give businesses a fixed amount of money to pay their employees' health care bills.
- But if those bills were bigger than the government share, businesses would lose. And the government's share is sure to fall short -- because, in order to cut \$270 billion from Medicare, Republicans would limit Federal spending way below the private sector. Companies worry that, "payments, over time, will fall short of rising medical costs, and that they will end up footing a mushrooming bill for retirees' health care." (*Wall Street Journal*, 8/10/95)

**Families Would Also Lose Under Republican Medicare Plan.** That's what the Republican proposal means for families too. As the amount Medicare spends decreases over time, people on Medicare would either pay more or get less. Costs would be shifted to Medicare beneficiaries -- 75% of whom live on incomes of less than \$25,000 -- and many simply could not afford to pay.



# Senate Clears Bill With Fewer Cuts for the Arts

By DAVID ROGERS

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — The Senate approved a nearly \$12.1 billion natural-resources bill after agreeing to soften House cuts from government funding for the arts and humanities.

The National Endowments for the Arts and Humanities would each receive \$110 million for the fiscal year beginning Oct. 1 — a one-third cut from current levels, but about \$10.5 million more than the House approved last month for each agency.

Moreover, the Senate would strike restrictions making the NEA funds available only when the House has passed a separate reauthorization bill. Across the political spectrum, individual Republicans showed little appetite for the House leadership's plan to terminate funding in 1997.

Adopted 92-6, the underlying bill reflects the strong influence of Western senators who won concessions for ranching, timber and mining interests even as the chamber voted to impose deep cuts on Indian-related programs. Indian Health

Service funding would be effectively frozen at \$1.96 billion, but the Bureau of Indian Affairs would be cut 16%, or more than \$220 million below what the House has proposed.

The same give-and-take about spending priorities is seen in a larger \$36.6 billion transportation bill brought to the floor last night by the Senate Appropriations Committee. To help build a reserve for education and environmental programs elsewhere in the budget, the panel goes much further than the House in scaling back highway, transit and airport funds. In an early test, the chamber voted 68-30 to override the objections of two Pennsylvania Republicans and uphold a nearly 44% cut in mass-transit operating assistance.

Within the natural-resources bill, the cuts from Indian programs fall hardest on those accounts funding hundreds of often-small tribal governments. Again Republicans were among those protesting, and Senate Budget Committee Chairman Pete Domenici (R., N.M.) angrily complained

the cut was a "glaring mistake" and threatened the "termination of Indian self-determination."

Nonetheless, on a 61-36 roll call, the Senate rejected a Domenici amendment to shift \$200 million from other accounts to the Bureau of Indian Affairs. By an almost equal margin, members later killed a second attempt by his New Mexico colleague, Democratic Sen. Jeff Bingaman, to

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restore \$26.6 million for the Office of Indian Education.

The debate was striking given Mr. Domenici's standing as one of the leading architects of the GOP drive to balance the budget. The New Mexico Republican was matched against one of his early proteges on the budget panel, Sen. Slade Gorton (R., Wash.), who chairs the appropriations subcommittee overseeing the annual natural-resource bill.

"We are distributing reductions that were forced on us," said Mr. Gorton. While reminding all sides of their enduring friendship, the two men waged a testy war of charts and conflicting numbers that seemed almost a satire of the larger budget debate.

In related action, the Senate:

- Approved a 90-day moratorium to block federal grazing-land regulations due to take effect this month.

- Amended an existing law to toughen penalties in cases of "tree-spiking" — a practice used by some antilogging protesters in the West. The provision would make it easier for timber companies to show the economic damages needed to meet the threshold for criminal prosecution. In cases that result in serious bodily injury, the provision allows for imprisonment of up to 40 years.

- Voted to end the moratorium on government processing of "patent" applications to allow mining companies to take title of federal lands where they have staked mineral claims.

- Restored \$4.5 million for Fish and Wildlife endangered-species programs and upheld funding for the release of wolves in the West and Southeast.

THE WALL STREET JOURNAL THURSDAY, AUGUST 10, 1995

## Medicare Plan By GOP Leaves Business Cold

By LAURIE MCGINLEY

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — Republicans who are trying to redesign the Medicare system are touting a proposal to let workers stay in company health plans after they retire. But business is giving it the Bronx cheer.

Under the concept, which has been talked up by House Speaker Newt Gingrich (R., Ga.) and Ways and Means Health Subcommittee Chairman William Thomas (R., Calif.), employees in company-sponsored managed-health plans would be permitted to stay in those plans after they retired; they wouldn't have to drop out and sign up for Medicare. The companies would receive annual stipends from the government to pay for the retirees' health bills, and assume the risk of covering the workers.

One of the goals is to promote the use of lower-cost managed-care programs among retirees. Rep. Thomas says that it makes little sense for a worker who is satisfied with a managed-care plan to feel compelled, upon retirement, to switch back to the costlier fee-for-service arrangement that dominates the traditional Medicare program. Under managed-care programs, which include health maintenance organizations, participants agree to limits on their choice of doctors in exchange for lower costs.

But, said Sharon Canner, a vice president at the National Association of Manufacturers, the idea "presents some real problems for employers." The main question, she said, is: "Will the payments [from the government] keep up with inflation?" Companies are worried that the payments, over time, will fall short of rising medical costs, and that they will end up footing a mushrooming bill for retirees' health care.

The Business Roundtable, which represents more than 200 chief executive officers, also strongly opposes the idea. The group said in a statement that while the payments may be adequate at first, "there is nothing to prevent future Congresses from reducing these payments in order to

lower federal spending. This will ultimately shift the responsibility and costs of retiree health care from Medicare to employers."

The complaints seem to be having an impact. A Republican aide acknowledged yesterday that support for the idea is "lukewarm" in the business community, and that it may not be included in the Medicare-overhaul plan to be unveiled in mid-September. "It's not so much that business doesn't like the idea, as a concern that future Congresses won't live up to their end of the bargain," he said.

Still, enthusiasm for the idea remains high among congressional Republicans. Rep. John Linder (R., Ga.) said that allowing retirees to stay in their companies' health plans would compel businesses to use the same kind of cost-control strategies that they employ for their under-65 population. "The companies would be controlling expenses, and watching for fraudulent billing and hospital overcharges."

Currently, companies that provide health benefits to retirees generally provide supplemental coverage to Medicare, in which they pick up costs that the federal program won't cover.

Republicans have said that if they went forward with the proposal, it would be an option for companies, not a requirement. But companies are worried that "once the government makes it available as an option, expectations among employees grow, and it's going to be very hard to say no," said NAM's Ms. Canner.

Walter Maher, Chrysler Corp.'s director of federal relations, said that the auto maker took a look at devising a health plan that would cover retirees in the late 1980s. But the company, after having several discussions with the United Auto Workers and the Health Care Financing Administration, which runs Medicare, concluded that it wasn't interested in "increasing our risk in this area. There were so many unanswered questions that both we and the union didn't think it was a good idea to proceed," he said.

But he and others said there was another way to encourage increased use of managed-care plans. Under this scenario, the government would enter into contracts with managed-care companies that provide coverage to particular employers. The employers could make contributions to cover supplemental coverage and handle some of the paperwork. But they wouldn't be assuming the risk of covering the retired employee. That would rest with the managed-care companies.



# Clinton to Declare Nicotine in Cigarettes A Drug That Can Be Regulated by FDA

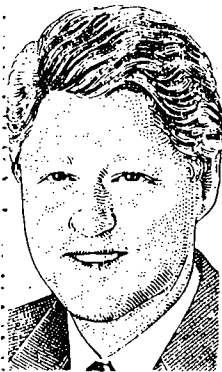
## Rules Would Be Withheld If Congress Approves Curbs on Teen Smoking

By MICHAEL K. FRISBY  
And HILARY STOUT

Staff Reporters of THE WALL STREET JOURNAL

CHARLOTTE, N.C. — President Clinton will declare today that nicotine in cigarettes is a drug that can be regulated by the Food and Drug Administration and will ask the agency to draft a federal rule aimed at curtailing smoking by minors.

Mr. Clinton will unveil his proposal to curb teenage smoking surrounded by children in an Oval Office ceremony. But while he plans to assert the FDA's authority to regulate cigarettes, he is expected to suggest that he is willing to back away from federal regulations if Congress passes a law aimed at restricting youths' access to cigarettes.



President Clinton

The main thrust of the president's initiative is the landmark extension of FDA jurisdiction to nicotine. The regulation to be unveiled today is likely to contain restrictions on cigarette vending machines as well as curbs on certain types of advertising aimed at youths and other measures aimed at preventing teenagers from buying cigarettes.

But to ease the blow of the controversial new policy on the Southern tobacco-grow-

ing states, the White House is also considering steps that can be taken to assist tobacco farmers if the antismoking initiatives create an economic hardship.

Under the regulatory process the president is expected to initiate, the FDA will publish a proposed regulation in the Federal Register, probably as early as today. A public comment period of 90 days will follow. Then, after further review, the FDA will publish a final regulation.

But during the standard comment period, aides said, Mr. Clinton would give tobacco's legislative friends an opportu-

### Don't Just Say No

Towns attempting to curb sales of cigarettes to minors find that sweeping rules don't have much effect unless they're backed by specific penalties and detailed enforcement plans. Article on page B1.

nity to gather support for a legislative approach to the teenage smoking problem. If that failed, the FDA regulations would be implemented.

A draft of the proposed regulation, dated Aug. 7, would, according to a person who has seen it, limit cigarette sales to face-to-face transactions and require proof of age for sales; ban outdoor cigarette advertising within 1,000 feet of schools or playgrounds; require outdoor advertising and "point of sale" ads, near checkout counters, to be black and white and text-only; ban companies from giving away cigarettes or nontobacco items; require a label on all cigarette packages declaring the product to be a "nicotine delivery device," and allow tobacco companies to sponsor events only in the corporate name, not in the brand name of a cigarette.

Speaking to the National Baptist Convention here in the heart of tobacco country yesterday, the president hinted at his new policy. "There are some things we can

do at the government level" to curtail teenage smoking, he declared. Surrounded by big tobacco's friends, such as North Carolina Gov. Jim Hunt, Mr. Clinton didn't give details of his plan, but he declared that government can't ignore "the evidence that one of the greatest threats to the health of our children is teenage smoking and it is rising."

Moreover, the president declared that smoking by minors has been increasing "steadily and rapidly" since 1991. He said that smoking by eighth-graders jumped 30%, while smoking by 10th-graders is up 20%. And he maintained that reducing teenage smoking would be the "cheapest, easiest" way to slash health-care costs.

Highlighting the pressure that Mr. Clinton has faced on this issue, Gov. Hunt greeted the president at the airport here but told reporters he hoped to convince the president that tobacco should not be regulated. "We don't need big government trying to run our lives," Mr. Hunt said. Instead, he suggested an aggressive public-relations campaign aimed at teenage smoking. "We just need to do it in a voluntary way that works instead of over-regulation from Washington," Mr. Hunt told reporters.

Mr. Clinton's decision to push forward with FDA regulation of tobacco is a political gamble. Polls show strong public support for taking on the tobacco companies, but the move clearly would hurt Mr. Clinton in the South, particularly in North Carolina, where annual cash receipts from tobacco farming total nearly \$1 billion and the industry helps create jobs ranging from farm work to convenience-store cashiers.

But aides realize that North Carolina, which Mr. Clinton barely lost in 1992, will be difficult to win in 1996 regardless of

Please Turn to Page A4, Column 1

Continued From Page A3

whether the administration regulates tobacco. In a statewide poll, published in yesterday's Charlotte Observer, Mr. Clinton loses overwhelmingly in a two-way race against Senate Majority Leader Robert Dole, the leading contender for the Republican presidential nomination, 56% to 35%.

Recognizing the steep odds against Mr. Clinton in tobacco-growing states, Dick Morris, the president's new political guru, has been pushing a political argument for why the policy should be tough: It's the right thing to do, he contends, and the broad support it has in many states would overshadow the fallout in a few tobacco states.

Nevertheless, some political advisers worry that going after cigarette companies could make Mr. Clinton seem elitist and out of touch with Joe Sixpack.

In pushing Congress to pass legislation cracking down on teen smoking, the president hopes to place himself in a no-lose situation. Since the Republican leadership so abhors the notion of regulating the tobacco industry, administration officials argue that it may be inclined to approve legislation restricting cigarette companies just to head off an FDA rule. On the other hand, if the GOP rejects the legislation, the president may have forced Republican leaders to vote against a bill favored by the public.

### Move Clear for Weeks

It has been clear for several weeks that the White House was heading toward some type of regulation of the tobacco industry. Officials had considered a plan proposed by Reps. Ron Wyden (D., Ore.) and Charlie Rose (D., N.C.) under which the tobacco companies would have entered into a binding agreement with the government to finance a campaign against teenage smoking, curtail advertising directed at youths and help fund state efforts to enforce laws prohibiting underage smoking. Smoking by minors is outlawed in

every state, but enforcement is generally lax.

Supporters of the plan had argued that it could achieve more immediate effects, since the tobacco companies have said they will fight any effort at federal regulation in court. While the tobacco industry was initially unenthusiastic about the Wyden-Rose proposal, the companies expressed a new interest in negotiating with the administration after a Wall Street Journal report that the White House had decided to pursue a regulatory course. But friends of the companies on Capitol Hill said the administration had shunned the companies' overtures.

### Gore's Example

In addition to the Oval Office ceremony and a scheduled news conference this afternoon, President Clinton will hold a 10 a.m. briefing on the tobacco plan for top officials of the American Medical Association, the American Cancer Society, the American Lung Association, the American Heart Association and the American Academy of Pediatrics.

What Mr. Clinton hopes to achieve is the same kind of success that Vice President Al Gore has enjoyed over the course of his career in raising health concerns of tobacco, but maintaining a friendship with tobacco growers. Mr. Gore had to strike that balance to survive — not only did he grow tobacco on his farm and receive federal subsidies for it, but he had 10,000 tobacco farmers in his congressional district.

Mr. Gore, who grew up on a tobacco farm but stopped growing the crop 11 years ago after his sister died of lung cancer, has been one of the strongest advocates for federal regulation during the administration's recent deliberations. When he was a congressman and senator from Tennessee, Mr. Gore brokered deals between the tobacco industry and health enthusiasts on cigarette-warning labels.

—Timothy Noah contributed to this article

PM-GA--Gingrich-Medicare, 3rd Ld-Writethru,820

Republicans Go to Georgia to Talk About Medicare

Eds: Leads with 11 grafs to UPDATE with protest. Picks up 5th graf pvs,

Gingrich, appearing...' Edits throughout and cuts at bottom to tighten

By CHRISTOPHER CONNELL= Associated Press Writer=

ATLANTA (AP) A Democratic congressman and more than 100 chanting labor activists disrupted today's launch of House Speaker Newt Gingrich's crusade to convince Americans the GOP can fix Medicare without harsh cutbacks.

After Rep. John Lewis, D-Ga., and the activists marched into the hotel ballroom, Gingrich, who had been in a waiting room, left without delivering his speech. Organizers of the town meeting said he would try again later in the day.

'Where is Newt!' the demonstrators began shouting after 20 minutes of standing at the back of the room. Some marched up the aisle and sat on the stage, waving fists and shouting, 'Newt is scared!'

The demonstrators left en masse and Lewis addressed them outside the ballroom.

'We must tell the Speaker, Mr. Gingrich, and we must tell the Republicans to take their greedy hands off of Medicare,' he said.

Recalling the civil rights march to Selma, Ala., 30 summers ago, Lewis said this 'is our march to November 1996. ... We have a group of radical extremists in Washington under the leadership of this speaker who want to take us back to another period, undo what Roosevelt did, what Truman did, what Kennedy did, what Lyndon Johnson did.

'We must say we are not going back and will not go back,' Lewis shouted.

'This is one day Newt Gingrich didn't get his way,' gloated Stewart Acuff, president of the Atlanta Labor Council.

Earlier, on television, Gingrich said the Republican plan to save \$270 billion from Medicare over seven years will simply 'limit the rate of growth' and that actually, 'every year Medicare (spending) will go up.'

Sen. Paul Coverdell, R-Ga., who spoke at the town meeting before the disruption, said, 'Those voices who say nothing is required should be muted and frankly ignored. ... If you're 58 and nothing is done, there will be no Medicare program.'

Lewis, like the rest of the Georgia delegation to Congress, had been invited to share the stage with Gingrich and other Republicans at the public meeting sponsored by the Congressional Institute, a conservative policy group.

Gingrich, appearing on NBC's 'Today' show, said the Clinton administration's own Medicare trustees have concluded the program 'starts to go broke next year and is bankrupt in seven years. What we want to do is limit the rate of growth.'

He dismissed criticism that the plan could cost seniors an addition \$1,000 a year, calling that 'a scare tactic from our political opponents.' He acknowledged, however, that senior citizens already expect 'a traditional pattern of slight increases each year ... to fit the inflation rate.'

Irate Democrats are mounting their own forums and launching petition drives to avoid what Rep. Sander Levin, D-Mich., claims is the 'Medicare Pearl Harbor' looming when Congress returns from its August recess.

Addressing charges that the GOP was concocting a 'stealth' plan that will mean higher costs for seniors and less freedom to choose their doctors, Gingrich said Sunday he expects to unveil his plan by the first or second week of September.

Gingrich, on CNN's 'Late Edition,' said, 'A stealth plan beat(s) no plan at all. They don't seem to have any plan.'

Gingrich and House Majority Leader Dick Armey, R-Texas, sent their troops home for the August recess with slide shows and thick packets explaining options the GOP is considering to revamp Medicare, the \$178 billion health program for 33 million senior citizens and 4 million disabled workers.

Gingrich promised that if senior citizens like Medicare the way it is, they can keep their current fee-for-service coverage, which allows them to go

to any doctor they wish.

Seniors now must pay \$716 for the first day in the hospital, a \$100 annual deductible for doctors' bills and 20 percent copayments, and \$46 a month premiums for their Part B coverage.

An options paper leaked from the House Ways and Means Committee a month ago spoke of sharply increasing the deductible and making the elderly pay as much as 25 percent of doctors' bills if they refused to switch to managed care.

Other options, according to Gingrich, include allowing senior citizens to stay in the group plan they were in before turning 65, or letting them open medical savings accounts.

But Democrats warn that Republicans may try to convert Medicare into a voucher where the government would pay a certain sum each year, and no more.

Gingrich says the GOP belt-tightening moves will allow Medicare spending per beneficiary to grow from \$4,800 now to \$6,700 by 2002, assuming the program grows at 6.4 percent a year.

Democrats warn that \$6,700 may not be enough, with inflation and increased demand for services.

\*\*\*\* filed by:APW-(GA) on 08/07/95 at 11:53EDT \*\*\*\*

\*\*\*\* printed by:WHPR(LMCH) on 08/07/95 at 12:06EDT \*\*\*\*

## Republicans Go to Georgia to Talk About Medicare

EDs: LEADS with 6 grafts to UPDATE with Gingrich comments today. Picks up 4th graf, 'Irate Democrats...' Prenoon lead planned

By CHRISTOPHER CONNELL= Associated Press Writer=

ATLANTA (AP) House Speaker Newt Gingrich today launched a Republican crusade to convince Americans that the GOP can fix Medicare without the harsh cutbacks that Democrats claim are inevitable.

Gingrich said the Republican plan will simply "limit the rate of growth" and that actually, "every year Medicare (spending) will go up." He also defended the plan against criticism it lacks specifics, saying on Sunday that "a stealth plan beats no plan."

Gingrich, R-Ga., Sen. Paul Coverdell, R-Ga., and other Republican lawmakers, including Rep. Nathan Deal of Georgia, a recent Republican convert, were leading a public meeting here today on the theme of avoiding bankruptcy in the Medicare program.

No Democrat accepted the Congressional Institute's invitation to share the stage with Gingrich and the other Republicans, who will be holding dozens of town meetings across the country this month to sell the public on the necessity of their plan to squeeze \$270 billion from projected Medicare spending over seven years.

Gingrich, appearing on NBC's "Today" show, said today that the Clinton administration's own Medicare trustees have concluded the program "starts to go broke next year and is bankrupt in seven years. What we want to do is limit the rate of growth."

He dismissed criticism that the plan could cost seniors an addition \$1,000 a year, calling that "a scare tactic from our political opponents." He acknowledged, however, that senior citizens already expect "a traditional pattern of slight increases each year ... to fit the inflation rate."

Irate Democrats are mounting their own forums and launching petition drives to avoid what Rep. Sander Levin, D-Mich., claims is the "Medicare Pearl Harbor" looming when Congress returns from its August recess.

Addressing charges that the GOP was concocting a "stealth" plan that will mean higher costs for seniors and less freedom to choose their doctors, Gingrich said Sunday he expects to unveil his plan by the first or second week of September, giving lawmakers several weeks to scrutinize it before any final vote.

Gingrich, on CNN's "Late Edition," said, "A stealth plan beat(s) no plan at all. They don't seem to have any plan" for avoiding bankruptcy in Medicare's hospital fund by 2002.

Gingrich and House Majority Leader Dick Armey, R-Texas, sent their troops home for the August recess with slide shows and thick packets explaining options the GOP is considering to revamp Medicare, the \$178 billion health program for 33 million senior citizens and 4 million disabled workers.

Gingrich repeated his promise that if senior citizens like Medicare the way it is, they can keep their current fee-for-service coverage, which allows them to go to any doctor they wish.

"We're saying that those senior citizens who want to can stay in the current program," said Gingrich. Their copayments and deductibles are likely to go up "at about the same rate" they have "over the last eight years."

Seniors now must pay \$716 for the first day in the hospital, a \$100 annual deductible for doctors' bills and 20 percent copayments, and \$46 a month premiums for their Part B coverage.

An options paper leaked from the House Ways and Means Committee a month ago spoke of sharply increasing the deductible and making the elderly pay as much as 25 percent of doctors' bills if they refused to switch to managed care.

Managed care got a bad name in last year's debate over President Clinton's doomed universal health insurance plan, and Gingrich now likes to talk about "coordinated care options."

It is a catchall phrase covering health maintenance organizations, point-of-service plans and other plans that try to manage all of a person's health care needs for a fixed price usually with some restriction on the patient's use of specialists or doctors outside the plan's network.

Other options, according to Gingrich, include allowing senior citizens to stay in the group plan they were in before turning 65, or letting them open medical savings accounts to pay their own bills, usually in conjunction with a high-deductible, catastrophic policy.

"We want senior citizens to have the right to choose," Gingrich said.

But Democrats warn that Republicans may try to convert Medicare from a defined benefit program where everyone 65 and older gets the same package of benefits, regardless of health or wealth to a voucher or defined contribution plan, where the government would pay a certain sum each year, and no more.

Gingrich says the GOP belt-tightening moves will allow Medicare spending per beneficiary to grow from \$4,800 now to \$6,700 by 2002. That assumes the program will grow at just 6.4 percent a year instead of the current 10 percent rate.

Democrats warn that \$6,700 may not be enough in seven years, with inflation and increased demand for services.

# HMOs to Get Big Medicare Rate Increase

By GEORGE ANDERS

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—Seems like everybody is trying to slash health-care costs except the U.S. government.

The government's Medicare program is getting ready to boost what it pays HMOs to care for the elderly by at least 7%, three times what HMOs are getting from private industry. The 7% figure comes from people familiar with a closely watched federal formula due to be released today.

Rumors about the pending increase

## McDermott Blasts GOP After Gingrich's Testimony

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON — After listening to Speaker Newt Gingrich testify yesterday, the House Ethics Committee's top Democrat said the panel was vulnerable to charges of a coverup because Republicans have resisted appointing a special counsel to probe complaints against the House speaker.

Washington Rep. Jim McDermott's blistering criticism of the panel's work added to partisan tensions, and prompted a curt reply from Ethics Chairwoman Nancy Johnson (R., Conn.): "We are doing the work that needs to be done so we can make the judgment that needs to be made."

Democrats allege Mr. Gingrich violated ethics rules and tax laws with his multimillion dollar fund-raising operations. Critics also claim that his book deal with media baron Rupert Murdoch's publishing house, HarperCollins Publishing, constitutes a major conflict of interest. Mr. Murdoch has big stakes in matters pending before Congress, and Mr. Gingrich stands to earn upwards of \$2 million from his bestseller, "To Renew America."

helped send HMO stocks higher yesterday and Wednesday. Among the biggest gainers was PacifiCare Health Systems Corp., which operates the largest Medicare HMO. Its Class B shares climbed 5.7% during the two-day span, finishing yesterday at \$60.25 a share on the Nasdaq Stock Market.

Officials of the Health Care Financing Administration, which runs the Medicare health program for the elderly, declined to say exactly how much HMO rates will rise. But one HCFA executive said Wall Street estimates of a 7% to 10% increase were "well-informed speculation."

A 7% increase would be the biggest Medicare boost in three years for HMOs, and would come even as HMOs face considerable price pressure in their main, under-age-65 markets. Many big corporations negotiated price cuts this year from HMOs. For the coming year, HMO executives are predicting average rate increases as low as 2%.

The government's hefty increase is likely to be seized on by critics of the current Medicare system. "I think it's going to be awfully tough for the Clinton administration to come out and protect the status quo when these rates are going up, while in the commercial HMO market you're seeing some rates actually going down," said Ken Laudan, an analyst at Montgomery Securities, San Francisco.

HMOs currently cover only about 10% of the 33 million Medicare recipients who are age 65 or over. But many big HMOs are aggressively seeking to expand in that market. Meanwhile, Republicans in Congress are looking seriously at ways to increase HMOs' appeal to older Americans, as part of an effort to get Medicare costs under control.

HCFA had been scheduled to release the Medicare HMO rates this Tuesday. Kathy Buto, HCFA's associate administrator for policy, blamed the delay on "a

little bureaucratic snafu." She said there wasn't any connection between the delay in releasing the report and political arguments about the fate of Medicare.

HCFA officials noted that county-by-county rates for Medicare HMOs won't be released until September, and that those rates may vary from the national average. They also said that further data on Medicare costs this year may cause the HMO reimbursement date to be adjusted slightly.

Margo Vignola, an HMO analyst at Merrill Lynch & Co., said investors may be reacting too fast to Medicare-rate news. "There's a formula, and then there's politics," she said. She contended that Medicare HMO rates might rise as little as 3% in major markets next year, once various adjustments have been made. She also argued that the federal government may want to see HMOs so deeply involved in Medicare that even if subsequent rate increases become much stingier the health plans would have to keep providing coverage in years ahead.

For now, though, the Medicare-rate news "has a serious impact on the stocks," said Eleanor Kearns, a Boston-based analyst with Alex. Brown & Sons. "They've been up all week on anticipation of a good number."

## Workers' Weekly Wages Rose to \$475 in Quarter

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON — The weekly earnings of the median full-time American worker was \$475 in the second quarter, up 2.2% from the same period of 1994, the Bureau of Labor Statistics said. The gain wasn't enough to compensate for the 3.1% increase in consumer prices.

The data were collected as part of the government's Current Population Survey, which asks a sample of the nation's 89.5 million full-time workers what their "usual wage" is.

The new data also illustrate the gap between wages of educated workers and those without degrees. Among full-time workers 25 years old or older, the median wages for those without a high school diploma was \$309 a week in the quarter. High school graduates without any college earned \$428 a week; those with some college earned \$593 a week. And the median wage among the 29% of work force with college degrees was \$757 a week.

Only 10% of all workers over age 25 earn more than \$1,078 a week, the survey found.

Median earnings for black men working full-time were \$407, 72.4% of the \$562 median for white men. The racial differences were much narrower for women. Black women earned \$354, 85.9% of the \$412 median reported by white women.

## Kodak Seeks U.S. Help To Crack Japan Market

By a WALL STREET JOURNAL Staff Reporter

ROCHESTER, N.Y. — Eastman Kodak Co. filed a request for remedies with the U.S. Trade Representative outlining actions it wants the government of Japan to take to "ensure open access to these markets."

In May, Kodak filed a petition alleging the Japanese photographic market is unfairly controlled by its main competitor, Tokyo-based Fuji Photo Film Co. Fuji, which has denied Kodak's charges, is expected to give a detailed response to the allegations Monday.

In its request yesterday, Kodak said it wants the Japanese government to direct Fuji to: end "activities that promote ... price fixing"; terminate exclusive distribution agreements with its wholesalers; end rebates that exclude competitors and induce resale price maintenance; and end its monopoly pricing.

White House officials said they are impressed with Kodak's case and are expected to begin interagency discussions in the next few weeks.

## White House Sees Deficit For Year at \$160 Billion

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON — The White House budget office now projects that the federal deficit for the current fiscal year will be around \$160 billion, about \$30 billion smaller than the administration projected in February.

If the projection proves correct, the deficit for the fiscal year that ends Sept. 30 will be the smallest since 1989 and will have declined for the third year in a row. The deficit last year was \$203.2 billion.

The improved deficit outlook is to be released today with the administration's midyear update of its budget and economic forecasts.

The deficit is less than the \$192.5 billion projected by the White House budget office in February for several reasons. Among them: Revenues are larger than anticipated, interest rates are lower and spending on certain government-benefit programs outside of health care is rising less rapidly than projected.

The new estimates include the effects of the reductions in current-year appropriations recently agreed upon by the Congress and President Clinton.

# GOP's Block-Grant Plan for Food Stamps Fades

By CHRISTOPHER GEORGES

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — Senate Republicans, working on a revised GOP welfare bill, have decided against turning the federal food-stamp program into a block grant for states.

Lawmakers have also agreed to bolster welfare funding for high-growth states.

The food-stamp proposal will likely call for a sharp reduction in spending on the nutrition program, about \$16 billion less in outlays over the next five years than currently projected, by limiting the benefits available. But it will remain an entitlement program, allowing benefits to anyone who meets the program's qualifications.

A previously discussed option would have made food stamps a block grant: the federal government would have given each state a pre-set amount to run the program. If the money ran out during the year, no further federal funding would be forthcoming.

Senate Finance Committee Chairman Bob Packwood, who has supported a block



Sen. Bob Packwood

grant for food stamps, conceded yesterday in an interview that "if we put a food-stamps block grant in the [welfare] bill, the vote to take it out will succeed." The Oregon Republican is drafting the revised welfare bill along with Senate Majority Leader Robert Dole of Kansas.

The food-stamps provision is one element of a sweeping welfare-overhaul bill expected to be debated on the Senate floor starting next Friday. While the House passed a welfare-overhaul bill earlier this year, the welfare debate in the Senate has developed into a protracted battle between Republican moderates and conservatives.

The Senate Finance Committee approved a welfare bill earlier this year, but conservative senators balked, in part because it didn't go far enough to restrict payment of benefits to some current beneficiaries, such as unwed mothers under 18 and mothers on welfare who give birth to additional children. The opposition has prompted Sen. Dole, a presidential candidate, and Sen. Packwood to attempt to rework the bill to accommodate conservatives—led by Sen. Phil Gramm of Texas, another presidential candidate—while keeping moderate Republicans on board.

Last week, Sen. Gramm unveiled his own welfare-overhaul plan. While chances appear slim for Senate passage of Sen. Gramm's proposal, it has drawn enough support to provoke Sens. Dole and Packwood to offer concessions to conservative

Republicans.

While details of the Dole-Packwood bill have yet to be finalized, congressional aides say it is likely to include block grants of several welfare programs, including the main child-support program, Aid to Families with Dependent Children. But high-growth states in this program would be allowed to draw on a special \$863 million pool over five years. The added pool of money was offered as a concession to senators from states such as Florida and Texas, who threatened to withhold support from the final bill unless it adequately accounted for their anticipated increase in population of poor people.

Other block grants would include child care, public housing and job training. States are expected to be given broad authority to spend the money on welfare programs as they saw fit, but would be required to limit the amount of time recipients could stay on welfare and would have to require most beneficiaries to work.

In an apparent attempt to appease moderates and conservatives, the bill is expected to require some restrictions on unwed teenage mothers on welfare, for example requiring them to live at home and attend school to qualify for benefits. The measure is also expected to give states an option to deny cash benefits to mothers on welfare who have additional children. A number of other key issues, however, remain unresolved.

## House GOP Wins Bid to Put Waivers in EPA Bill

By DAVID ROGERS

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — Republicans, in a show of political muscle, won House approval of a resolution enabling the GOP to wrap regulatory waivers for favored industries into a bill funding the Environmental Protection Agency.

The 230-189, near-party-line vote was the opening shot in what promises to be a two-day debate on a \$79.4 billion spending bill that would take deep cuts from the EPA and housing programs for the new fiscal year beginning Oct. 1.

Oil refiners and cement and paper companies are among those with a stake in legislative riders attached to the pending bill. And in this season of budget cuts, Republicans have turned exemptions from federal rules into a new brand of pork-barrel politics, helping industry allies and solidifying business contributions to the GOP.

Senate Appropriations Committee Chairman Mark Hatfield yesterday spoke out against the practice, urging his own panel to "clean up" the spending bills as they come across the Capitol. But within the House, yesterday's vote demonstrated the power of the new leadership and will shield the riders from parliamentary attack in the chamber.

To solidify support, Republicans first had to make concessions to appease moderates and senior members of the House Rules Committee. But the victory set the tone for subsequent votes into last night as Democrats struggled vainly to restore funds to housing and environmental programs.

In related developments:

- President Clinton signed a landmark spending-cut bill that cancels \$16.3 billion from prior appropriations approved by past Democratic Congresses for the current and earlier fiscal years. The savings give Congress a leg up toward meeting

deficit-reduction targets next year, and the money will help pay for costs arising from natural disasters as well as the Oklahoma City bombing.

- House and Senate negotiators agreed to terminate Congress's Office of Technology Assessment as part of the Capitol's budget.

- The Senate appropriations panel voted to terminate funding for the near decade-old White House "drug czar" office. The \$9.9 million cut dovetails with plans to shift another \$147 million in antidrug programs to the Treasury Department.

- The same committee granted a temporary reprieve to a costly gas-turbine reactor project that the Energy Department and the House have proposed to terminate. By a 15-8 vote, the panel called instead for an independent scientific assessment first. The sudden reversal reflects strong corporate lobbying and was a victory for the chief contractor, General Atomic Co.

The \$79.4 billion bill before the House now is the first — and more complex — of two massive domestic spending measures Republicans intend to pass before the August recess. Apart from housing and environmental programs, the bill also funds veterans, space and science agencies. The mix of forces made it harder for Democrats to maintain unity as they tried to shift funds between accounts.

As part of the compromise with GOP moderates, the House agreed to switch at least \$600 million back into assorted housing programs, primarily those targeted to the elderly, homeless and AIDS patients. But the spending priorities mostly reflect the influence of core conservatives who put greatest emphasis on space and veterans programs.

The appropriations panel earlier had spoken boldly of challenging the veterans lobby. But in yesterday's procedural fight, the GOP sought to harness the veterans' cause and relied on two senior members of

the Rules Committee who are closely identified with these issues.

"I dare you to vote against this rule," said Rules Committee Chairman Gerald Solomon, who painted the vote as a test of support for veterans funding. But the New York Republican had a stake as well in provisions accompanying the bill that would help paper mills in his district in dealings with the EPA.

Date: 07/28/95 Time: 20:34

# G-O-P, White House Trade Charges On Medicare

(Washington) -- The battle over Medicare reform is heating up. Republican lawmakers today drove an ambulance with a ''Rescue Medicare'' sign up to the Capitol, accusing Democrats of standing by idly while the health program for the elderly goes broke.

The White House launched its own salvo. A spokesman for President Clinton accused the Republican National Committee of making ''outrageous and dishonest claims'' in an ad about Medicare. The ad promised Republicans ''won't let Medicare go bankrupt.''

The White House also unleashed a volley of press releases estimating how much seniors and the poor stand to lose in each state from the Republican plan to find (B) billions of dollars in savings in Medicare and Medicaid. The estimates ranged from a high of 44-hundred dollars per person in Florida to a low of 800 dollars in Wyoming.

APNP-07-28-95 2041EDT



AP G0387 rw pol-- GOP-Medicare,380

07-27 7:30a

**GOP Ads Says Clinton Ignoring Medicare Financial Crisis****By JOHN KING****AP Political Writer**

WASHINGTON (AP) - Returning the White House's fire in the Medicare debate, the Republican Party says in a new newspaper advertisement that President Clinton "knows Medicare is dying" yet refuses to offer a plan to bolster the program's finances.

"Too Young To Die," is the headline over the ad, which is scheduled to run Friday in USA Today at a cost of \$69,000 to the Republican National Committee.

The text of the ad recounts the Republican argument in the debate with Clinton and his fellow Democrats over Medicare. As the program celebrated its 30th birthday this week, Clinton and allies criticized Republican plans to find roughly \$270 billion in Medicare savings over seven years as part of their plans to balance the federal budget. Clinton favors a smaller reduction in Medicare spending, about \$124 billion over 10 years.

To counter Clinton's arguments that the Republicans Medicare savings would help pay for tax cuts, the GOP ad reminds readers that the Medicare trustees - including several Clinton appointees - have warned that the program will go bankrupt in seven years without a financial fix.

"Republicans think Medicare is too young to die," the ad text reads. We won't let Medicare go bankrupt. And we won't let seniors go bankrupt paying for health care. That's why Republicans are saving Medicare."

In an interview, GOP Chairman Haley Barbour said the ad was part of the party's overall communications strategy stressing that even with \$270 billion in savings, the Republican budgets call for Medicare spending to increase over the next seven years.

"If people know that Medicare will be bankrupt in seven years and it is the Clinton administration, not Republicans, that says so, then people think it would be irresponsible not to do what is necessary to prevent Medicare's collapse," Barbour said.

He said Clinton had demonstrated the "height of hypocrisy" this week in leading a celebration of Medicare's 30th anniversary but making no mention of the financial crisis. "So far Clinton just seems content to let Medicare go under," Barbour said.

The White House, however, has said it soon will be more specific about how it would address the problem and has held back because it wanted Republicans to answer for reductions the administration considers too steep.

# Gingrich uses Iowa trip to push Medicare plans

## GOP leader challenges president

The House speaker wants a commission to come up with alternatives to the current system.

By DAVID TEPSEN

WASH. POST STAFF WRITER

House Speaker Newt Gingrich said Monday that senior citizens should not worry about Republican plans to revamp Medicare, and he challenged President Clinton to offer a plan to reform the system.

The Georgia Republican, in Iowa to raise campaign money for Republican U.S. Reps. Greg Canale and Jim Nussle, also said he'll start thinking about a presidential bid in mid-November.

### "Cheap Shot"

During stops in Des Moines and Waterloo, Gingrich said it was a "cheap shot" for Clinton to suggest that he is not serious about campaign finance reform. Gingrich said Congress would get to that reform later.

Medicare is forecast to run out of money in seven years, and Gingrich used his trip to Iowa, a state with one of the highest elderly populations in the country, to blast Clinton on the issue.

Democrats have criticized Republicans for wanting to cut the government-sponsored health care program for seniors. But "there is a clear educational malfunction among liberals," Gingrich said. "We take a Medicare program which this year is at \$4,800 per senior citizen. Over the course of a seven-year budget project to get to a balanced budget, we move that program to \$6,700. ... Virtually all of you have figured out by now this is a \$1,900 increase. ...

"What's the gutting part of this? This is an increase," he said.

Gingrich said the White House

GINGRICH Please turn to Page 4A

7/25/95 DMR

# Gingrich pushes Medicare plans

## GINGRICH

Continued from Page 1A

plans a celebration this year to mark Medicare's 30th anniversary.

"The president's own trustees reported about 10 weeks ago that Medicare starts to run out of money next year and goes broke in about seven years. We have waited for about 10 weeks for the president to come up with a proposal to save Medicare," he said.

"I want to challenge him and say: It's not enough just to celebrate the last 30 years. You have to help the country to understand what's to happen in the next 30 years. How are we going to save it? What are we going to do to make sure it's still there? And how are we doing to do it in a way that keeps every person in this room from going broke?" Gingrich asked.

Gingrich said he wanted to appoint a commission to study alternatives, such as creation of a "medical savings account" that would enable Americans to set aside pre-tax income for health care. The accounts would make Americans better consumers of medical care because they could keep what they don't spend.

Gingrich also said he liked the idea of vouchers consumers could use to shop for health care, and the idea of allowing workers to remain in their employers' group health plans after they retire.

Republican leaders are jittery about the issue because the party has lost elections to Democrats over senior citizens' benefits.

"In our plan, we keep the current structure for anybody who wants to stay in it," Gingrich stressed. "If you are 85 or 85 years old, your government probably shouldn't harass you. It shouldn't come to you and say we're going to compel you to change, we're going to force you out of a system you are used to."

By demanding a Medicare plan from the president, Gingrich was

trying to turn the tables on Clinton, who used his weekly radio address Saturday to demand that Gingrich produce a campaign finance reform plan.

The two men shook hands in New Hampshire on a promise to reform campaign financing, Clinton noted, but nothing's happened since then.

"I think the people of this country want us to move forward with political reform," Clinton said. "We have an obligation to get this done and not walk away. If we're going to restore a spirit of civility to American politics, a handshake has to mean in 1995 what it meant when I was growing up — we have to be as good as our word."

Gingrich called that a cheap shot. "I was about as offended by his comments Saturday as I've ever been. They were totally uncalled for. ... He attacked me by name on the radio program."

Congress is working on passing a budget before the start of the fiscal year and is trying to help the president on Bosnia, Gingrich said, but Clinton's remarks don't help those efforts.

While Gingrich was holding the door open to a presidential bid, he did not sound like a man preparing to walk through it.

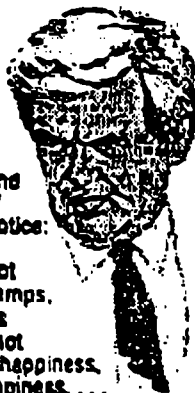
"We will assess all that in mid-November," he said, when he would ask himself, "Is there a big enough desire for another candidate at that point? Is it something I need to do because frankly being speaker of the House is a very big job and at the present time we're having a lot of fun, getting a lot of things done and having a reasonable impact as speaker, so I'm not sure we need to do it."

"If the race is fairly locked up by mid-November, the easy thing is to relax, be speaker of the House and do what we are doing, which is frankly an awful lot of work," he said.

About 1,000 people heard Ging-

## GINGRICH QUOTES

HERE ARE SAMPLES of remarks House Speaker Newt Gingrich made during his visit to Iowa on Monday.



"Life, liberty and the pursuit of happiness. Notice: Pursuit of happiness. Not happiness stamps, not happiness entitlement, not guarantee of happiness, not equal happiness. ... You can't pursue happiness if you don't have the habit of work."

"Yes, we'll give you 28 weeks (of unemployment compensation) if you are unemployed. We're not going to give you 26 weeks for deer hunting and bass fishing."

"Just because I believe every student at every age level should do at least two hours of homework every night, I don't then say we need a federal department of homework checkers."

"We need to say to anybody who brings in a commercial quantity of drugs: You are doing that to get rich by addicting and killing our children. If you do that, we will kill you."

"Every time we say to a poor child 'You don't need to learn English,' we are increasing the likelihood they'll stay poor."

"The slogan of the state of New Hampshire is Live Free or Die. It is not Live Free or Whine. ... It's very hard to be a passive American. It's not how our society works."

rich speak at a breakfast fund-raiser for Ganske at the Des Moines Marriott Hotel. About 600 attended his luncheon appearance on behalf of Nussle at the Five Sullivan Brothers Convention Center in Waterloo.

THIS STORY includes reports from Jack Houston in The Register's Waterloo Bureau.

7/25/95 DMR

# Speaker de 'er ds far 1 prograr 1 as necessary for 'food security'

'Every part of the world I know of has tremendous government involvement' in agriculture, he says.

By **GEORGE ANTHAN**  
OF THE REGISTER'S WASHINGTON BUREAU

House Speaker Newt Gingrich on Monday defended federal farm subsidies, saying it would be a mistake to wipe out farm programs in the face of subsidized competition from abroad.

The Republican leader supported farm-state legislators' plans for a new farm bill this year and said agriculture "far more than virtually any

other activity which we engage in ... is an unpredictable and uncertain occupation, that has challenges of weather and world markets, vagaries which are different from a lot of industries."

Gingrich discussed agricultural and rural issues during a meeting with Des Moines Register reporters and editors. He said critics of agricultural programs are mainly "urban politicians" whose opposition is based both on left-wing and right-wing ideology.

Gingrich appeared to generally agree with President Clinton on farm policy, even though he criticized the president last year as being "anti-agriculture."

During a visit to The Register in April, Clinton also strongly endorsed

continuation of farm income and price support programs "because family farmers are good for society ... but they can't stand the bad years" resulting from market and weather disruptions. Clinton said his chief aim in farm policy changes was to "do no harm."

The House speaker, who emerged from last fall's election as the most charismatic — and perhaps most influential — Republican leader in Washington, called farm programs essential "for our food security" and "for a counterbalance against efforts like the European Common Market to massively subsidize French and German farmers."

"Every part of the world I know of

**RURAL Please turn to Page 4A**

# House speaker supports subsidies

## RURAL

Continued from Page 1A

has tremendous government involvement," he added.

If the U.S. "were to unilaterally drop all the programs, that would put American farmers at the risk of having to take on the European Common Market without having any government involvement," he said.

"You clearly would drive down American farm income in a way which would not only be unfair to farmers but make no sense in the long run," Gingrich added.

Gingrich bridled when asked whether his chief adviser on farm policy issues would be Majority Leader Richard Arney of Texas, a leading critic, or Agriculture Committee Chairman Pat Roberts of Kansas, a farm program booster.

Farm program critics also include Democrats Charles Schumer of New York and Barney Frank of Massachusetts, Gingrich said, and Republicans are best represented on the issue by Iowa Reps. Tom Latham, Greg Ganske, Jim Ross Lightfoot, Jim Leach and Jim Nussle, and by Sen. Charles Grassley.

Gingrich also emphasized the clout Sen. Bob Dole, R-Kan., has on farm issues. "I somehow doubt that in a year in which Dole is the majority leader of the Senate and front runner for (the GOP nomination for) president ... that we are somehow going to do something which is radically disadvantageous to Iowa farming."

At the same time, Gingrich did state that since Arney is "the chief operating officer of the House, one always has to pay a fair amount of attention to him."

Roberts contends Republicans jeopardize their majority status by discounting the farm vote. Almost half the 73 GOP freshmen elected last fall are from farm districts, Roberts said, and the overall rural vote is broad and still based partly on farm issues.

## Five-Year Plan

Gingrich said the Republican-controlled House and Senate have approved a five-year budget plan which "does not in any way end (farm) programs. It has a substantial amount of money for all these programs."

A House-Senate budget agreement calls for reductions in farm programs by a total of \$8.5 billion over the next five years, with about \$1 billion to be cut in 1996. In recent years, farm programs have cost from about \$7 billion to \$15 billion a year.

If Congress backs an effort by Iowa's Grassley, the farm cuts would total no more than about \$6 billion over five years. Clinton has called for \$4.2 billion less for agriculture in the 1996-2000 period.

Gingrich also stressed that Republican efforts to balance the federal budget would reduce interest rates by up to two points and save state and local governments, consumers and farmers large amounts of money and result in "an enormous infusion of capital back into society."

He also said that despite some cuts in rural development efforts, emerging electronic networks would revitalize small towns and cities.

# Gingrich Draws Iowa Crowd

Des Moines (AP) — They don't think House Speaker Newt Gingrich will run for president — this time — but Iowa GOP activists were quick to pay anyway for a glimpse of the Georgia Republican.

About 1,000 turned out Monday for a \$100-a-plate breakfast to hear the speaker challenge President Clinton to come up with a plan to fix Medicare.

Shirking his trip's political overtones, Gingrich said the visit to Iowa was to counter Clinton, who this week will be observing the 30th anniversary of the signing of Medicare with events around the country.

"I wanted to come to Des Moines today, quite frankly, to challenge the president," Gingrich said at the fund-raising event for Iowa Rep. Greg Ganske. "We don't have any evidence that the president has any plan at all other than to attack us and wait for it to go broke."

"Tell us what you would do. It is not enough to just attack Republicans," Gingrich said.

Organizers of Gingrich's tour say not being a candidate gives him unique appeal.

"Newt's a huge draw, the hottest political property right now in the Republican Party," said Keith Foreman, who is organizing some of the events. "No light to the presidential candidates, but they're coming in all the time."



**BREAKFAST BUDDIES:** Iowa Gov. Bannstad, left, and House Speaker Newt Gingrich appear at a Des Moines fund-raiser Monday for Rep. Greg Ganske.

After causing a political stir with a visit to New Hampshire, home of the nation's first primary, Gingrich was set for a daylong swing across Iowa. The state's first caucus in February begins the process that will produce a Republican nominee to oppose President Clinton.

The public cover for Gingrich's trip is to raise money for two congressmen, but most of the speculation is about the Georgia Republican's ambitions — if

not this time, then in four years.

Iowa Republican Chairman Brian Kennedy said he doesn't view Gingrich as a potential candidate in the 1996 election but as a "visionary with an agenda."

Organizers said interest was high and rooms would be packed for Gingrich's visit.

Prices for the events range up to \$1,000.

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

24-Jul-1995 04:54pm

TO:           (See Below)

FROM:        Jason S. Goldberg  
              Office of Cabinet Affairs

SUBJECT:   Clinton Vows to 'Act Alone' With Veto To Stop GOP Budget Cuts

Date: 07/24/95   Time: 16:28

Clinton Vows to 'Act Alone' With Veto To Stop GOP Budget Cuts

WASHINGTON (AP)   Trying to get off the sidelines, President Clinton threatened a veto blitz Monday against GOP cuts in popular domestic programs. ``I will continue to act, alone if necessary,'' he declared.

Clinton castigated Republicans for not taking his 10-year budget balancing plan more seriously. And he said appropriations bills now moving through the GOP-led Congress would unravel bedrock education, health and environmental programs.

``There are a lot of things being done here which will violate and undermine our chances to achieve common ground,'' Clinton said.

He used a White House speech to delegates from Boys Nations   a high school good-government program in which he once participated to wield his latest veto threats.

``The haste of their schedule and the scope of their tax cuts are luxuries, and this is not a time for luxuries,'' Clinton said of GOP plans to eliminate the deficit in seven years while offering a \$250 billion tax cut.

The president said he didn't want to create a fiscal crisis this fall. But he suggested Republicans might give him little choice but to veto fiscal 1996 appropriations bills.

Republicans scoffed at Clinton's latest ultimatum.

``Instead of all this rhetoric and all these veto threats, Bill Clinton ought to sit down and propose a budget that really does eliminate the deficit,'' said Republican Party chairman Haley Barbour.

``Clinton doesn't have a 10-year plan to balance the budget. Republicans cannot compromise with a phantom plan,'' Barbour said.

It was a reference to a Congressional Budget Office analysis that suggested Clinton's plan would result in a \$209 billion deficit in the 10th year.

The administration has rejected the CBO conclusions as misleading and inaccurate, despite Clinton's 1993 claim that CBO figures would henceforth be used by the administration.



White House officials billed Monday's speech as the beginning of a concerted two-week effort by Clinton to raise his profile in the budget debate and to get off the sidelines.

The GOP-controlled Congress ignored his June appeal for a 10-year plan and has been marching ahead with a series of 1996 spending bills to reach its own seven-year goal.

Clinton said the Republican juggernaut is threatening government programs some decades old that have long enjoyed bipartisan support.

Specifically, he cited proposed GOP cuts in the student loan and other educational programs, in Medicare, Head Start, job training and in the Clean Air Act.

"I invite senators and members of Congress from both parties to join me in balancing the budget while protecting our common ground," he said. "I will work hard to get their support. But if they refuse, I must continue to act, alone if necessary."

White House Chief of Staff Leon Panetta has said that none of the appropriations bills before Congress are acceptable to Clinton in their present form.

Failure of 13 appropriations bills to be signed by Oct. 1 could result in a shutdown of government agencies and services. This happened several times during the Bush and Reagan administrations in clashes with Congress, but not Clinton's presidency.

Presidential spokesman Mike McCurry said the administration does not want to "go through this silly game in which we shut down the federal government."

But there also seemed little prospect this late in the budget cycle that GOP leaders would take Clinton up on his invitation to join him in a 10-year plan that makes smaller domestic cuts.

So far, Clinton has only vetoed one bill, cutting \$16.5 billion from current spending. Congress did not attempt to override the veto but reached an agreement with the White House on a new \$16.3 billion version Clinton is expected to sign Thursday.

Clinton told his youthful audience, dressed in red and black Boys Nation shirts, he had been a Boys Nation delegate to the White House on July 24, 1983, and had met President John F. Kennedy.

"I would never have made it here, and gone from that day to this one, without the benefit of the shared beliefs and convictions and opportunities that made up the America of my youth."

These opportunities are threatened by the GOP budget plans, he said.

"We mustn't throw over, in a moment of partisan zeal, the common sense and bipartisan conclusions of our fathers and mothers," he said.

APNP-07-24-95 1634EDT

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

24-Jul-1995 04:51pm

TO:            (See Below)

FROM:         Jason S. Goldberg  
              Office of Cabinet Affairs

SUBJECT:    DEMOCRATS LAUNCH SERIES OF ATTACKS ON GOP MEDICARE PLANS

Date: 07/24/95    Time: 16:42

Democrats Launch Series of Attacks on GOP Medicare Plans

WASHINGTON (AP)    In a campaign timed for Medicare's 30th anniversary, Democrats launched a weeklong attack Monday on Republican plans to save \$270 billion from the health care program for the elderly.

``The Republican cuts would cause \$1,000 additional cost to the average senior citizens and their family,'' House Democratic leader Dick Gephardt of Missouri said at a news conference with Senate Democratic leader Tom Daschle of South Dakota.

``They're doing it not to balance the budget, not even to fix Medicare, but to give a tax break to people who don't need a tax break,'' Gephardt said.

President Clinton takes up the attack on Tuesday at a Medicare ``birthday celebration'' event on Capitol Hill. Gephardt, Health Secretary Donna Shalala and other Democrats will attend a ceremony marking the anniversary of Medicare on Saturday in Independence, Mo., where President Lyndon Johnson signed the legislation creating the program three decades ago.

The Democratic attacks drew a quick rebuttal from House Speaker Newt Gingrich. ``They plan a week of cheap shots and nostalgia,'' he said of Clinton and the Democrats. ``We're not cutting anything, we're increasing.''

While no Medicare legislation is expected on the floor of the House or Senate until September, the Democratic decision to seize on the anniversary of the program reflects the political importance of the issue in the 1996 elections.

Republicans are drafting legislation to save \$270 billion from Medicare by 2002 as part of their attempt to balance the budget a blueprint that also envisions \$245 billion in tax cuts. Pointing to a report issued by Medicare's trustees, including members of the administration, they intend to slow the project rate of growth, and say savings are essential to preserve the program.

At the same time, Republicans identified Medicare months ago as a potential political land mine for their efforts to balance the

budget in seven years. An estimated 37 million seniors are enrolled in the program, and Gingrich, in Iowa, said during the day, ''I think Medicare is the most difficult and delicate issue that we're dealing with.''

In an eight-page memorandum circulated last month to House Republicans, pollster Frank Luntz outlined several tips for maintaining the political high ground in a politically treacherous debate. ''Republicans must be seen as the part of hope; the party that took on the problems of Medicare head-on,''' he wrote. ''...For our efforts to be successful, we have to make the status quo a worse option than change.''

For their part, Democrats have been cheered in recent weeks by polls suggesting that GOP policies are losing support. Mark Mellman, a Democratic pollster who has advised both Gephardt and Daschle, said Republicans proceed at their own peril. ''While people want to cut spending they are not willing to sacrifice Medicare on the altar of deficit reduction,''' he said.

Clinton, countering the GOP balanced-budget plan, proposed \$124 billion in savings over 10 years from Medicare, but said the money would come from providers rather than beneficiaries.

Asked about the political stakes, Gephardt said: ''If they (Republicans) do what they want to do or what they hope to do, I think they'll be in the minority for a long, long time.''

The details of the Republican plan have yet to be thrashed out, although they are expected to offer seniors several alternatives. One would preserve the current fee-for-service program, although at a higher cost; others would be designed to encourage seniors to enroll in less costly programs, including HMOs or plans that couple tax-deductible savings to be applied to routine health costs and insurance for catastrophic coverage.

Whatever details finally emerge, Democrats aren't waiting.

''I don't think that there is an issue pending which characterizes the philosophical difference between Democrats and Republicans more ably than Medicare does,''' Daschle said at the Democrats' news conference.

''That was the case 30 years ago, when Democrats fought to create Medicare and Republicans opposed it.''

The Democrats have scheduled a full week of commemorative events, all designed to underscore their points.

Tuesday's schedule includes a presidential visit to Capitol Hill and Democratic appearances on talk radio programs. On Wednesday, Democrats intend to release a report that will predict devastating impact on hospitals if Republicans pursue their plans.

The event Friday will be held at the Truman Library. Johnson signed the measure there in a tribute former President Harry Truman, who first proposed health care for the elderly.

APNP-07-24-95 1648EDT

Distribution:

TO: 75674.403@compuserve.com@INET  
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TO: Jeremy D. Benami

# In Budget Battle, a Side Skirmish Over Medicare

By ROBIN TONER

WASHINGTON, May 28 — The battle of the budget is often presented as a highly stylized and scripted clash between two parties on the floor of the House and Senate. But away from the official show, as real-life constituencies defend real-life programs, the struggle is more subtle, more sophisticated and sometimes more like a political campaign than a legislative process. There is no better case study — and perhaps no better indication of what the next few months will bring — than the confrontation between congressional Republicans and the hospital industry.

So far, this rift, which centers on the Republicans' proposal to extract hundreds of billions of dollars from the Medicare program, has brought a wave of angry newspaper advertising from the American Hospital Association, warning, "Everyone will feel the impact if community hospitals have to reduce their services or close their doors." It has also prompted summit meetings, stern letters from Republican leaders, charges and countercharges.

It has even prompted the House Republican Conference to produce a Response Plan to the American Hospital Association's Attack on House Republicans." That document, which was circulated on Capitol Hill, offered sample news releases, talking points and suggested letters to local hospital officials to defend the Republican budget and cast the debate in different terms.

"A.H.A. has launched a vigorous, all-out campaign to defeat the balanced budget," one of the suggested letters declares. "Using your resources and invoking your name, it is working to insure that the budget is not balanced and Medicare is not saved from bankruptcy." The sample news release, "to use if A.H.A. ads run in your district," declares, "The ads run in today's paper are part of a nationally orchestrated fear campaign, designed by Washington lobbyists to scare Americans into believing that Medicare should not be improved or protected."

The heat of this dispute, in short, has rivaled anything generated by the more traditional face-off here between Democrats and Republicans. Representative John R. Kasich of Ohio, the chief architect of the Republican budget as chairman of the House Budget Committee, declared in an interview last week that the hospital association is absolutely, totally and completely irresponsible and "out of control."

Given the stakes, the heat is not surprising. The Republican drive to balance the budget and cut taxes by 2002 is premised on extracting more than \$250 billion in savings from

Medicare, the program for the elderly, in addition to \$175 billion or more from Medicaid, which is for the poor.

Rick Wade, senior vice president for the hospital association, replied: "We're expressing a strong point of view over a number. We think it's a proper role for us to point out that we think the number is too big."

From the beginning, the Medicare proposal has been considered the most politically vulnerable part of the Republican plan. Party leaders have tried hard to defend these huge cuts in projected spending as a means of preserving the solvency of the Medicare program, but many analysts say the reductions far exceed what is necessary on that score.

Tom Scully, a former Bush adviser and president of the Federation of American Health Systems, a trade group for about 1,400 hospitals, said it was "almost impossible to find a serious health care or budget analyst who thinks this level of cuts is justified by rational health policy."

Representatives of the hospitals, moreover, maintain that these new spending controls would be nothing short of devastating, resulting in hospital shutdowns, curtailments of services and a general disruption of the health care system. As the Republican budget resolution moved to the floor of the House and Senate earlier this month, the A.H.A. took this message to the country in the newspaper advertisements, run nationally and in selected Congressional districts.

"Hospitals are successfully controlling costs, but these reductions go beyond what is reasonable," one advertisement declared. "They're going to hurt, not just folks on Medicare, but anyone who may need the high quality care that only a hospital can give."

There is ample precedent for this kind of effort; interest groups in major legislative struggles have increasingly moved toward the trappings and technologies of a political campaign, from polling to advertising.

Most recently, in 1993-94, groups including the American Medical Association and the Health Insurance Association of America ran advertisements to express their concerns about the Clinton Administration's health plan. The insurance association's "Harry and Louise" commercials, about a 40-something couple fretting over the dangers of health care restructuring, became a major theme in the ensuing debate.

Behind all this advertising is a simple concept: Congress responds to public opinion. Move that, and you may move Congress, or at least the relevant members.

The quick response of House Republican leaders to blunt the hospitals' campaign suggests that they are keenly aware of that truism as well. "In order to defeat this and future attacks on our proposal, each

member office needs to be both prepared and proactive," the Republican response plan declares.

Hospital officials argued that they tried a more conciliatory approach, accepting the political reality that some reductions would come in the Medicare program and offering to work with Republicans on long-term restructuring. "Our whole attitude in dealing with Republicans on this was we wanted to work with them cooperatively," said Rick Pollack, the hospital association's executive vice president for Federal relations.

But he said, "When they went to the floor with their plan, we felt we had an obligation to make sure people knew this type of proposal was very dangerous to hospitals and the communities they serve."

Now, Mr. Pollack said, with both the House and Senate adopting budget resolutions with upward of \$250 billion in Medicare savings, the struggle enters a new phase: how those savings will be achieved. The hospitals want to help Republicans "reach those numbers in a responsible way," he said.

But Barry Jackson, executive director of the House Republican Conference, suggested the conciliatory phase had yet to flower fully. The hospitals "probably misstepped there on their first step," he said. "Rather than engaging in a dialogue about the program, they went into attack mode and they now find themselves on the outside looking in."

Date: 07/20/95 Time: 18:54

## Parties Trade Barbs Over Medicare Overhaul

WASHINGTON (AP) A Republican senator advanced the first Medicare voucher proposal Thursday while Democrats charged that the GOP's ``stealth'' reforms would force the elderly to pay more and get less.

Sen. Judd Gregg, R-N.H., said his ``Choice Care'' Act would let seniors keep their traditional coverage, but offer incentives to get them to switch to less expensive health maintenance organizations and managed care plans.

Gregg said the expanded choice of health plans wouldn't cost seniors anything extra and would produce savings in the form of rebates for those who chose HMOs.

The Clinton administration's Medicare chief, Bruce C. Vladeck, said that barring miracles, it would be impossible for Republicans to save \$270 billion over seven years without inflicting pain on the elderly.

Vladeck charged that converting Medicare into a voucher program with seniors getting fixed amounts each year to buy private insurance ``would put all the risk of increased medical care costs on the beneficiaries.''

Even with the \$124 billion in savings that President Clinton is seeking from Medicare, ``either somebody's paying a lot more or somebody's receiving a lot less,'' Vladeck told the House Ways and Means health subcommittee. ``The amount of pain grows exponentially with the dollars involved.''

Ways and Means Republicans have been thrust on the defensive by the leak of a staff document outlining ways to achieve the \$270 billion in savings, including sharp increases in premiums and deductibles.

But Rep. Bill Thomas, R-Calif., chairman of the Ways and Means health subcommittee, accused Vladeck of jumping to conclusions. ``I can assure you there is no (Republican) plan'' yet on how to achieve the savings, Thomas said.

He accused the Clinton official of raising ``nightmare scenarios,'' and said Medicare will go broke without change.

``Republicans want to change the program,'' said Thomas. ``If you don't do it, the next administration will.''

Laura Tyson, chairman of President Clinton's National Economic Council, said the Republicans would let Medicare grow just 4.9 percent per capita each year, less than the 7.1 growth in the private sector ``with all of the managed care innovations and a less sick population.''

Rep. Nancy Johnson, R-Conn., promised ample protection for consumers in any reforms and reminded Vladeck, ``Medicare is on the skids.''

The program's hospital trust fund is facing bankruptcy by 2002.

Judd's ``Choice Care'' proposal, which he plans to introduce next week, does not include any higher charges. He would require private plans to enroll all applicants, no matter how sick, on a first-come, first-serve basis up to their capacity.

But he acknowledged it would produce only a portion of the \$270

billion, and Congress would have to find other ways to slow Medicare spending.

Gregg, as chair of a Republican entitlements task force, has proposed automatic spending cuts if moves to managed care fail to slow Medicare's growth rate from 10 percent to 6.5 percent annually.

"Pay more or get less, that's the Republican Medicare plan," Senate Minority Leader Tom Daschle, D-S.D., told a news conference. He called vouchers "a ticket to disaster."

"There's a stealth bomber coming at the elderly of America in the form of ... Medicare cuts," warned Sen. Bob Graham, D-Fla.

Sen. Edward M. Kennedy, D-Mass., asserted that the GOP may make elderly couples pay "a whopping \$6,600 more" over the next seven years.

Gregg dismissed the Democrats' barbs.

"The administration continues to be locked into its view that the only people who can manage health care are bureaucrats here in Washington and Hillary Clinton," he said.

APNP-07-20-95 1900EDT



Rep. Richard Arney says the challenge on Medicare is to combat "60 years of a government that has done nothing but teach the lessons of dependence."

## GOP leader lashes out at Medicare

By Steve Daley

WASHINGTON BUREAU

WASHINGTON—House Majority Leader Richard Arney told reporters Monday that he "deeply resents the fact that when I'm 65 I must enroll in Medicare."

While the Texas Republican made it clear he backed GOP arguments that Medicare must be restructured to keep it solvent into the next century, he maintained that one element of his party's small-government vision included "trying to allow people to re-learn the lessons of freedom, and they're scary lessons."

He characterized the GOP challenge as combating "60 years of a government that has done nothing but teach the lessons of dependence," and said that, speaking only for himself, he believed Medicare was "a program I would have no part of in a free world."

Americans must sign up for Medicare when they reach age 65, but are not required to accept benefits.

Rep. Dick Gephardt of Missouri, the Democratic leader, character-

Arney's remarks "the [GOP] agenda."

"They really want to make it a voluntary program," said Gephardt, whose Democratic colleagues were incensed last month when President Clinton undercut their attacks on the GOP budget plan when he endorsed slowing the rate of Medicare growth.

"They [Republicans] weren't for Medicare when it was born, and they believe the revolution of the last elections gives them license to change it," Gephardt said in an interview.

Ed Gillespie, Arney's spokesman, sought to play down his boss's personal feelings about one of the most sensitive and explosive of American political institutions.

"The fact is, we inherited this thing that's about to go bust," Gillespie said, citing reports by Medicare trustees that the federally subsidized health insurance plan for the elderly will become insolvent early in the next century.

Revamping Medicare is essential to the Republican pledge to balance the federal books by 2002.

They must find \$270 billion in Medicare savings over seven years, and contend they will achieve those savings by reducing the rate of growth in Medicare from about 10 percent annually to 6.4 percent.

Last weekend, the conservative Washington Times reported that GOP House leaders had settled on the outlines of a strategy to retool Medicare, one which turns on offering the elderly more medical choices from the private sector.

Under the GOP plan, which will be taken up by three committees this month and next, Medicare recipients could choose to stay with the current system, but would have to pay higher monthly premiums.

Recipients would receive an annual lump-sum payment to purchase health insurance from health maintenance organizations (HMOs), and beneficiaries could choose to open medical savings accounts.

Arney, a brash, former economics professor who is the second most powerful member of the House and highly regarded by younger GOP members, has a history of controversial remarks.

He was an early advocate of military base-closing commissions and has attacked farm subsidy programs and the minimum wage.

On Monday, the head of the American Hospital Association called on Congress to form a bipartisan commission to reconfigure Medicare.

"Every issue ought to be on the

table and there ought to be an honest debate over it," said Dick Davidson, president of the hospital group. "You can't get an honest debate over the next 90 days."

Floor action on changes in Medicare and Medicaid is expected in September.



Medicare, 500Administration Criticizes GOP's Medicare Voucher Proposals

WASHINGTON (AP) Elderly and disabled Americans will be digging deeper into their pockets to keep health benefits if Congress moves ahead with plans to overhaul Medicare, the Clinton administration says.

The Republican effort to reform Medicare would "turn back the clock 30 years to a time when the elderly and disabled struggled in a discriminatory and expensive insurance market to buy decent coverage with limited funds," Judith Feder of the Department of Health and Human Services, told a House subcommittee Tuesday.

The budget plan approved by Congress last month would pare the growth in Medicare spending by \$270 billion over the next seven years.

House Republicans are considering a draft plan that would revamp the program by creating financial incentives to encourage people to join health maintenance organizations or other types of managed-care plans that are designed to reduce the growth in medical costs.

Participants would be given government-funded vouchers that could be used to pay for a variety of private health insurance plans, such as HMOs.

House leaders, however, have also pledged that Medicare recipients and future retirees who wish to remain in the traditional fee-for-service program, in which the government pays for each doctor's visit or hospital stay, may continue to do so.

Ari Fleischer, a spokesman for the House Ways and Means Committee, said the draft plan was an internal staff document describing a "wide spectrum of options available to policy-makers" and that it was far too soon to say which would be adopted.

But administration officials, including HHS Secretary Donna Shalala, were quick to attack the plan.

Shalala said it would "force Medicare beneficiaries to reach deeper and deeper into their own pockets to maintain their current coverage."

And Feder, a deputy assistant secretary of HHS, told the House Commerce subcommittee on health that moving into a voucher system as Medicare spending is being reduced by \$270 billion "can only be disastrous" for the people who depend on it.

She said Medicare participants under a voucher system probably would have to pay more to keep the coverage they have today. But since three-fourths of them have incomes below \$25,000, she said, "it is likely that many seniors would not be able to pay more."

"At worst, beneficiaries would be forced to buy coverage that is insufficient to meet their needs," Feder said. "That's not choice, it's financial coercion."

Fleischer, however, said Shalala and Medicare's other trustees have warned that unless reformed, the system will be "gone, bankrupt, insolvent" in seven years.

"We are prepared to move forward and make the decisions to save Medicare for present retirees and future retirees, and in doing so, seniors will have choices and all reforms will be done with an eye toward what is doable and what affordable," he said.

Wall St. Jrnl.; 7-19-95

## **Plan to Revise Medicare May Raise Recipients' Costs**

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON — A draft plan by House Republicans to revamp Medicare could result in substantially higher costs for beneficiaries who stick with standard Medicare coverage.

The plan became the focus of a bitterly partisan House Commerce subcommittee hearing yesterday.

Democratic panel members denounced the notion of increasing costs to beneficiaries while Republicans argued that it is essential to restrain Medicare growth.

Judith Feder, chief aide on health issues to Health and Human Services Secretary Donna Shalala, testified at the hearing that preliminary estimates indicate the average beneficiary in 2002 would pay as much as \$400 more in premium increases under the blueprint than under President Clinton's budget. In addition, she said, those who use home health services and skilled nursing facilities would pay, on average, \$1,000 for each service in 2002.

# GOP may have solution to Medicare's budget problems

**PETE du PONT**

WASHINGTON

**A**re the Republicans about to shock the Democrats, the bureaucrats, the Washington establishment and status quo naysayers everywhere? Have they developed a Medicare reform concept that will meet the budget targets while actually improving benefits for the elderly?

Perhaps they are, and maybe they have. Today, Medicare and its funds are controlled by the government. But a bubbling Republican idea is to shift power and control over the program's funds to the elderly themselves.

Under the proposal being discussed, elderly people would be free to withdraw 95 percent of their share of Medicare spending each year and use it to purchase private coverage of their choice instead. These private options would include Medical Savings Accounts (MSAs), Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs), or traditional individual or group insurance. They could also choose to remain in Medicare. What is most appealing about these private options, however, are the opportunities offered by MSAs.

Under the MSA option, the retiree would use part of the funds from Medicare to purchase catastrophic insurance

covering all expenses above a high threshold, say \$3,000 per year. The remaining funds would be saved in the MSA and used to pay medical expenses below the deductible. The retiree could then withdraw any remaining MSA funds at the end of the year and use them for any purpose.

Health insurance actuaries have already estimated that the amounts the elderly could withdraw from Medicare, plus the amounts they are already paying out-of-pocket for health care and supplemental private insurance, would be enough to pay for the catastrophic insurance and put \$3,000 in the MSA for expenses below the deductible.

Since the elderly choosing the MSA option would be in control of their health expenses below \$3,000 per year, they would avoid unnecessary or overly costly care, or any care where the costs exceed the benefits. Because of this new consumer cost-consciousness, doctors and hospitals would compete to reduce costs to attract consumers trying to get the best value for their funds.

MSAs have already proven to be powerful cost-cutting tools. Companies offering MSAs for their employees are reducing or eliminating annual cost increases,

much larger savings than are targeted for Medicare in the House and Senate budget resolutions. Consequently, the MSA option can achieve the Medicare budget targets through improved incentives and competition rather than cutting benefits for the elderly.

More important than costs, though, are services. The MSA option would actually offer better benefits and health care

for the elderly than Medicare does today. For example:

The MSA catastrophic insurance would provide coverage for all expenses over the insurance threshold, unlike Medicare benefits, which are limited in duration and

do not provide full catastrophic coverage.

Also, unlike Medicare, the MSA would cap all annual out-of-pocket expenses by the elderly, since once the catastrophic threshold is reached there are no more expenses.

With an MSA the elderly could purchase pharmaceutical medicines which are not currently covered by Medicare.

Through the MSAs, the elderly could avoid the increasing rationing under Medicare, which is reducing the quality of their care and their access to care. All the private plans offered as an alternative to Medicare would have to at least cover the

same services and treatments as Medicare, and private plans would also have to accept anyone from Medicare who chose them, not just healthy people.

Finally, to solve the Medicare budget problem, spending for people who choose to remain in Medicare would be indexed to grow no faster than 5 percent to 7 percent annually (compared with 10 percent today) by adding an up-front deductible to the program that would be automatically set each year at whatever amount is sufficient to keep program costs within the targets. The elderly could privately insure against the deductible, and the poor could be shielded from it altogether through low-income vouchers.

These reforms essentially address the problems of Medicare by shifting power from the government bureaucracy to individuals. That is what Republicans promised in the last election. That is what the voters demanded. That is what the Republican plan under discussion delivers. Providing broad new advantages and benefits to the elderly while reducing costs to the government sounds like very good news.

The Republicans may make sweet political lemonade out of a sour welfare state lemon.

*Pete du Pont, the former governor of Delaware, is policy chairman of the National Center for Policy Analysis.*

**A GOP idea is to shift power and control of Medicare's funds to the elderly.**

LEVEL 1 - 1 OF 1 STORY

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The Boston Globe

June 14, 1995, Wednesday, City Edition

SECTION: NATIONAL/FOREIGN; Pg. 1

LENGTH: 1442 words

HEADLINE: President offers plan to balance the budget;  
Takes on goal of GOP, draws Democrats' ire

BYLINE: By Peter G. Gosselin, Globe Staff

DATELINE: WASHINGTON

BODY:

President Clinton aligned himself with the Republican drive to balance the budget last night, but said the painful cutbacks should be made over 10 years rather than the seven that the GOP proposes and should protect the elderly, students and the economy.

In a nationally televised address, the president said public clamor for a balanced budget and a threatened stalemate between Republicans and Democrats had grown so great that he had little choice but to offer his own plan for erasing the deficit by 2005, rather than the GOP's goal of 2002. Clinton's budget last February left the annual deficit hovering around \$ 200 billion indefinitely.

"It took decades to run up this deficit. It's going to take a decade to wipe it out," Clinton said in his five-minute Oval Office address. "We could do it in seven years as congressional leaders propose. But the pain we'd inflict on our elderly, our students, our economy just isn't worth it."

Clinton asserted that he was protecting key Democratic programs such as education, research and government-provided health benefits for elderly and the poor even as he was seeking to trim federal spending by more than \$ 1 trillion over seven years.

But his claims seemed to fall on deaf ears as Democratic congressional leaders openly attacked the president for giving too much ground to the Republicans too early in the budget battle.

"If you can follow the White House on this budget, you're a whole lot smarter than I am," said Democratic Rep. David R. Obey of Wisconsin.

Many Democrats believe that Republicans will be brought down by the unpopularity of their proposed cuts, and that the party's best strategy is to stand aside and let them fall. But it was clear from Clinton's new budget proposal that he is no longer of that camp. Instead, he appears ready to do much of what Republicans want to do with the budget, only at lower levels or more slowly.

For example, he proposed cutting Medicare and Medicaid \$ 181 billion over seven years (and more over 10 years), and using some of the money to expand health coverage for others. The Republicans want to slash the two big

The Boston Globe, June 14, 1995

government health programs by as much as \$ 475 billion.

The president proposed cutting welfare spending in much the same way as the GOP, by restricting what legal immigrants can collect in benefits. But aides said he would drop the most punitive elements of the Republican welfare measures and reduce the amount to be cut by almost two-thirds, to \$ 38 billion, compared with the GOP's \$ 116 billion to \$ 130 billion.

He retained a proposal for a middle-class tax cut that he made shortly after last fall's Republican electoral rout. But aides said the \$ 500-per-child tax credit would only go to working families and would cost the government \$ 105 billion in lost tax revenues over seven years, compared with the House Republicans' proposed \$ 354 billion tax cut.

In a prepared response to the president, Senate Majority Leader Bob Dole, the Kansas Republican and presidential candidate, said that with the president now jumping into the budget process, the nation could begin "a debate of historic proportion." But he cautioned that the negotiation would be tough he said Clinton's speech had been little more than "a defense of the status quo, recycled reasons why government can't become smaller and why agencies can't be eliminated."

White House officials insisted that Clinton was still ready to fight Republicans over what to cut and what to keep. But they carefully avoided brandishing a veto threat, and independent observers said that, having accepted the balanced-budget goal, there was little the president could do to block the GOP budget drive.

"The reality is that we are not going to accept a budget that does not maintain our investment in education. We're not going to accept a budget that doesn't include reforms and reduces the hit on beneficiaries with regard to Medicare. We're not going to accept their tax cut," White House Chief of Staff Leon Panetta told reporters shortly before Clinton's speech.

Almost all of official Washington viewed Clinton's decision to join the budget-balancing effort as a likely turning point in this year's legislative struggle, and a big boost for House Speaker Newt Gingrich, who has led the conservative charge. Clinton's move followed a cordial public meeting between the two Sunday in Claremont, N.H. All four major television networks, which recently have refused to carry some presidential speeches, aired the address.

"With this, there's no longer a debate about whether we should balance the budget. Now it's just how long we should take and how we should do it," said Robert D. Reischauer, former director of the Congressional Budget Office.

Word of Clinton's decision and his hastily scheduled address spread through Washington in a rush yesterday, producing consternation among congressional Democrats and wry smiles among Republicans.

House Minority Leader Richard A. Gephardt issued a statement critical of the president's move. "Opening the door to deep Medicare cuts while the Republicans are struggling to pay for their huge tax breaks threatens to make Medicare a political football. The real losers will be the elderly and the families that support them," Gephardt said.

The Boston Globe, June 14, 1995

"He's just seen a fast-moving train leaving town, and he's managed to catch up fast enough to catch the caboose," House Majority Leader Dick Armey, Republican of Texas, said of the president.

White House officials were short on many specifics last night, saying that the 24-page document they handed out should be seen as describing the president's broad goals rather than being a detailed budget proposal.

Officials took special pains to paint Clinton's health care proposals in as sweeping a fashion as possible, in part to remind voters of his ambitious, if unsuccessful health overhaul campaign and in part to justify statements earlier this year that he would not agree to Medicare cuts unless they were part of a broader effort to fix the nation's health care system.

"The Clinton administration is back to health care reform," budget director Alice C. Rivlin told reporters.

Rivlin said the president wants to use \$ 29 billion of the \$ 181 billion in Medicare and Medicaid cutbacks to subsidize health insurance for up to six months for people who lose their jobs and to pay for two new benefits. One would give those caring for victims of Alzheimer's disease a break and the other would eliminate the current copayment on mammograms.

She said Clinton also wants new legislation to protect people from losing coverage when changing jobs and to allow small businesses to join insurance-buying pools.

However, independent analysts said that it may be precisely on health care that Clinton is at his weakest because the president has almost no power to enforce the link between the cutbacks and his new proposals.

"There's little compelling connection between the Medicare and Medicaid cuts and the health system reforms the administration is proposing," said Reischauer. "It will be tough to get the Republicans to consider" most of the reforms, he said.

Indeed, the question of whether Clinton can - or even will try - to force Republicans to agree to any of his proposals hung over his speech like a cloud last night, leaving many with the impression that he has given up the fight.

Clinton acknowledged that his proposals would slice into many federal programs "Make no mistake . . . there will be big cuts and they'll hurt," he said. But he asserted that his plan, as opposed to Republicans, would protect key government programs for the middle class.

Clinton and his aides pleaded with Republicans to begin negotiations over what should be included and what should be cut from the budget for the next fiscal year. But it was already clear last night that GOP leaders will pay precious little attention to the president's numbers as they assemble their compromise House-Senate budget plan in the coming weeks.

Embracing a charge that Democrats had hurled against Republicans earlier this year, Republican National Committee Chairman Haley Barbour said that Clinton plan was thin on details.

The Boston Globe, June 14, 1995

White House aides, meanwhile, asked Democrats to be understanding of the president, saying his proposals would protect key Democratic initiatives. "I would ask" Democrats "to keep their powder dry . . . because the reality is that this budget reflects" Democratic priorities, Panetta said.

#### Comparison of deficit reduction plans

Seven year totals, in billions. (Negatives mean the amount is reduced).

GRAPHIC: PHOTO CHART, President Clinton offers his deficit plan last night in a nationally televised address. / REUTERS PHOTO VIA TV

LANGUAGE: ENGLISH

LOAD-DATE: June 15, 1995



de. Naturally, the Americans deny this. They react in Japanese negotiators say that America is demanding "tariff targets" for the number of showrooms selling cars, or for car makers' purchases of American-made parts. The Americans prefer euphemisms: "business forecasts" have now joined "voluntary agreements" in the weasel's lexicon. But America's own words suggest that Japan's claim is more or less right. From the start, the Americans have said that they want a "results-oriented" agreement. That ugly phrase means, simply, that there will be no deal without the promise of higher American exports of cars and car parts to Japan. But how much higher? The answer to that, however it is dressed up

in diplomatic flur

America and Japan will surely call the WTO's dispute-settlement system into action, and the new body will probably pronounce the Americans' sanctions wrong. Fine—unless such a result further weakened America's already infirm commitment to free trade. And if America wins its case? Fine, too: sorting out trade conflicts is what the WTO is for. It would have been much better if the Clinton administration had remembered that months ago—and better still if it had simply shut up its domestic protectionists from the start.

## Under the knife

**The best way for America to reduce its excessive spending on Medicare is to embrace broader health-care reform**

WHATEVER happened to America's health-care crisis? It would be tempting to conclude that, since Bill Clinton's national health plan collapsed last year, it has gone away; perhaps seen off, as right-wing Republicans predicted all along, by market forces. Tempting, but wrong. Witness the current rumour over Medicare, the federal health programme for the elderly, with Republicans and Democrats vying to avoid the blame for cuts that both parties know to be essential.

Congressional Republicans put themselves into this predicament. By promising, fatuously, to balance the budget, reduce taxes and protect defence and Social Security, they have been forced to chop the next-biggest entitlement programme: Medicare. Spending on Medicare is projected to rise from \$180 billion this year to nearly \$350 billion by 2002, at which point the trust fund that funnels payroll taxes to the programme will go bust. Reform will be politically testing. Medicare is hugely popular with old people, who not only vote in greater numbers than the young, but also contributed a big part of last November's swing to the Republicans.

### Send for the doctor

Newt Gingrich, the House speaker, offers a seductive-sounding treatment: simply slice a seventh off Medicare without affecting any of its beneficiaries. It is a splendid idea. Except that all the easy savings in Medicare—cuts in overgenerous hospital reimbursements and doctors' fees—were made long ago. Moreover, with one exception, they have failed to slow Medicare's growth; cuts in one area (eg, lower doctors' fees) have been offset by higher spending elsewhere (eg, more treatment).

The exception was "diagnosis-related groups" (DRGs), pre-fixed price controls for hospital treatments that were introduced in 1983. That points to one sensible reform of Medicare now: to push its recipients into managed-care programmes that offer comprehensive health care at pre-fixed prices. Only 7% are enrolled in health-maintenance organisations (HMOs), the best-known type of managed care; in contrast, half of privately insured Americans are now covered by managed care.

Changing Medicare rules to encourage managed care will not produce big savings quickly enough, however. So Congress is going for two more radical options. One is to switch the programme to offer "catastrophic" coverage only. At present

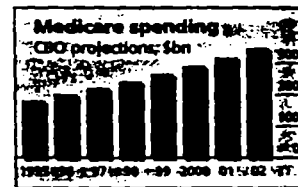
Medicare picks up the bills from day one, but is subject to a ceiling beyond which the patient must pay (most do so through private "medigap" insurance). It would be more equitable, and probably cheaper, to turn the programme round: the public purse should be called on only after patients have borne a reasonable cost themselves.

The second option is means-testing. Elderly Americans are on average richer than the young, which makes their indiscriminate subsidy from taxpayers through Social Security and Medicare questionable public policy. A good start would be to confine Medicare subsidies to the needy. Medicare could then be merged with Medicaid, the federal/state health programme for the poor, a more deserving case for public support.

The lobby for the elderly would naturally scream blue murder if these proposals came close to adoption. The precedents are bad; in 1990 the old folk even defeated an attempt to add (not substitute) catastrophic coverage to Medicare, because they were expected to pay for it themselves. Fear of the elderly explains why Senate Republicans this week suggested a bipartisan commission to propose the necessary surgery—the last refuge of the political coward.

Even if the Republicans were braver, however, there is a problem about tackling Medicare on its own. Although the federal budget would benefit, these savings could be offset by higher costs in private health care—as happened when Medicare adopted DRGs. Some of those costs could land back on the government through bigger tax reliefs or a rise in the numbers of uninsured Americans. Thus the best way to cut Medicare (and, incidentally, to make doing so politically feasible) would be to subsume them within broader health-care reforms.

This is what Mr Clinton has been saying; but it also happens to be true: The president's plan failed because, although it rightly embraced managed care, it was too bureaucratic and relied too much on regulation instead of the market. But the underlying problems it sought to tackle, notably out-of-control costs and patchy coverage that leaves 37m Americans (including 12m children) with no insurance at all, remain unsolved. For America's long-term health—and, now, for the sake of the federal budget—the Republicans should put together a market-oriented alternative to the Clinton health reforms.



# When Health Care Cuts Cost More

By ROBIN TONER

WASHINGTON

**R**EPUBLICANS have boiled down their Medicare proposals to a number and a sound bite: They can wring more than \$250 billion from the national health insurance program for the elderly over the next seven years, they say, even while "preserving, protecting and improving" it.

No big, comprehensive, Clintonesque health care overhaul for them. Just smart, targeted, money-saving reforms of outmoded government programs. After all, the Clinton Administration discovered the danger of over-reaching, right?

Right. But now the Republicans face the danger of piecemeal reform, of trimming and tinkering with a program that covers 37 million beneficiaries and is the lifeblood of many if not most of the nation's hospitals, doctors and academic medical centers. It will, like it or not, have big consequences, intended and unintended. Efforts to save money in one part of the program can end up costing money somewhere else.

## Republicans may find that a piecemeal approach has unintended consequences.

"Physicians understand reimbursement realities and they understand their patients," said Mike Brown, the administrator of a tiny, 30-bed hospital in Wahoo, Neb. "They do what is best for their patients."

In other words, medical needs usually have a way of getting met. And, if they are not, those needs have a way of popping up later — more serious, more advanced, more expensive to treat. Unlike private employers, who are much praised on Capitol Hill these days for controlling their health costs, the Government ultimately ends up with responsibility for the oldest, poorest, sickest Americans, which are the groups that Medicare and Medicaid cover. Efficiencies do not come

easily. Miscalculations matter, immensely.

As Republican leaders in Congress try to find the huge savings they seek in Medicare and as states struggle to control their own health care costs, nothing exemplifies the challenge facing them more than Medicare's home health program. It offers a case study in the potential ripple effects of seemingly simple little money-saving reforms.

Every policy maven who looks at Medicare's escalating costs jumps on the home health program as a major culprit. Home health care accounts for about eight cents of every dollar spent on Medicare. But spending on these services — like physical therapy, skilled nursing or the assistance of a lesser-skilled home health aide — has soared over the past five years, from \$2.5 billion in 1989 to \$13.7 billion in 1994. Not only did the number of beneficiaries increase; the number of visits per beneficiary jumped from 27 in 1989 to 58 in 1994.

In 1995, an estimated 3.46 million people will receive home health care benefits from Medicare; the

Continued on page 4

Continued from from 1

average visit costs just under \$65. Critics warn that what began as a cost-effective way of caring for and rehabilitating people after an illness or an operation has gotten dangerously out of control.

One answer, to many on Capitol Hill, seems obvious: require clients of home health care to pay part of the bill. As a planning paper from Republicans on the House Budget Committee put it, "Requiring beneficiaries to share the cost of these services would help to discourage over-utilization and reduce the Medicare subsidy." That plan contemplates a 20 percent copayment, with an exclusion for those whose incomes are below 150 percent of the official poverty line (meaning elderly couples, for example, with incomes below \$13,446).

### 'Quicker and Sicker'

This, of course, is sound economic theory; it assumes that people will stop requesting

or receiving all but the most necessary services if they are forced to pay for part of the costs. And that some of the services being rendered are indeed unnecessary or could be paid for by the beneficiaries.

But there are big demographic and technological forces behind the rise in home health costs, which are unlikely to change much as a result of simply requiring the client to pay a fee.

One reason for the increase in home health services was a decision by policymakers over the past 10 years to cut down on hospital stays. People are released from the hospital "quicker and sicker," as some health planners put it, with the understanding that they will get more cost-effective care at home or in a skilled nursing facility.

"When you have outpatient surgeries and shorter inpatient stays, you'll have more home health care," said Representative Nancy Johnson, Republican of Connecticut, an influential member of the Ways and Means subcommittee on health. "We need to be very mindful of rising home health costs as a consequence of other actions we've taken."

Home health beneficiaries are getting care for longer and longer periods of time. The program's scope has expanded in part because of a lawsuit in the late 1980's, in

which the Government was accused of applying this benefit far too narrowly and arbitrarily. But behind the increase, of course, is the growth in America's aging population. Hundreds of thousands of old, disabled and chronically ill people need help to stay in their homes.

Congress over the years has debated the establishment of a major new long-term care program, but never passed it. Nonetheless, home health care "has become sort of a backdoor way of expanding long term care," said Stuart Altman, a health economist at Brandeis and a member of a Medicare advisory committee.

Call it the "push it down here, it pops up there" phenomenon, which gives some analysts pause when they think about the implications of simply redefining the home health program to tighten its eligibility requirements. What if squeezing home health care ends up putting more people back into hospitals or into nursing homes, where their costs are picked up by Medicare, which is fully financed by Washington, and by Medicaid, which is only partly?

And speaking of Medicaid, Joshua Wiener, an analyst at the Brookings Institution, warns that Republican cuts in projected spending for that program fail to take into account the growth over the next five years in the population 85 and older. While Medicaid is usually thought of as a program for low-income younger people, 30 percent of its spending goes for nursing home and other long-term care, in part because people deplete their assets to qualify.

### Kindest Cuts

It would be simpler if spending could be reined in by cracking down on waste, fraud and abuse — typically the most popular and painless solution to budget-cutting. But that saves only so much.

Actually reducing services is fodder for the ripple effects game. What if Medicare payment restrictions force some already teetering rural hospitals into insolvency? What if reducing the Medicare subsidy for medical education is a body blow to the nation's big teaching hospitals? The questions spin on, and help explain, perhaps, what drove Ira Magaziner, the Clinton health czar, to produce a health plan that filled 1,342 pages.

# Republicans ready pitch to seniors on Medicaid package

## House GOP sees major reforms as do-or-die issue

By Major Garrett  
THE WASHINGTON TIMES

After years of avoiding the inevitable task of reducing exploding Medicare costs, House Republicans today will unleash an aggressive campaign to sell their reforms to a nation of skeptical seniors.

The 231 House Republicans received the same marching orders from senior GOP leaders before leaving Washington for this week's Memorial Day recess: Sell your seniors on Medicare reforms or we're all dead.

"Most of the members realize if they don't carry the message home they will jeopardize not only themselves, but all of us," said Rep. John A. Boehner of Ohio, chairman of the House Republican Conference. "This will cause a lot of people to look in the mirror and say, 'Do I have the courage or don't I?'"

Mr. Boehner is in charge of packaging the pitch Republicans will use on behalf of their unprecedented overhaul of Medicare. House Speaker Newt Gingrich has assigned Reps. Dan Miller of Florida, Jim McCrery of Louisiana and James C. Greenwood of Pennsylvania to monitor GOP salesman-

### Inside

**Welfare:** Debate includes call for federal money to fund religious charities. **A6**

**Hands off:** Congress finds it easier to kill others' perks than its own. **A8**

**On deck:** Senate GOP Whip Trent Lott has his eye on Bob Dole's job. **A8**

ship effort on a day-to-day basis.

Mr. Boehner conducted a closed-door briefing last week on a 39-page kit designed to maximize positive media and constituent response to GOP plans to reduce projected Medicare benefits by more than \$282 billion. A follow-up briefing with all GOP press secretaries drove home the urgency of beating Democratic critics to the punch.

"Each and every House Republican must take the initiative and go on offense on the issue that the other side thinks is our most vulnerable — Medicare," advises the media kit obtained by The Washington Times.

"We must get to our senior centers, to our hospitals, to our editorial board rooms and to the living rooms of our districts," the kit implores. "If we get to them first with the facts, the lies the Democrats and their allies are spreading will not be as effective as they hope they will be."

see REFORM, page A16

# REFORM

From page A

All in all, the GOP media package seeks to startle seniors into believing that maintaining their benefits is more dangerous than having them reduced.

The GOP pitch emphasizes that Medicare will go bankrupt in 2002 and uses quotes and charts from the Clinton administration's trustees report to back them up. Republicans are urged to repeat words such as "protect," "preserve" and "improve" — all of which were gleaned from extensive focus-group research.

Most important, Republicans are reminded to repeat over and over again that even under the new

austerity program, projected Medicare benefits will rise by \$1,600 per person.

The media kit does not say that people who stay in Medicare will pay \$2,750 more per person over the next seven years for the same health care.

And it does not mention their plan reduces the yearly growth in spending from 10 percent to 5.8 percent from now until 2002. The average growth of private sector health care costs is expected to be nearly 8 percent, meaning fewer services for Medicare recipients.

Republicans believe the only way to sell the higher costs and reduced health care that their plans envision is to convince seniors that cuts are inevitable. Once that is done, Republicans hope they can convince seniors they are

the only party with a plan to preserve Medicare for future generations.

"We're arguing that, first of all, all you've have to do is hold up the trustees report of the Clinton administration trustees and point to the page where it says, 'This will go broke,'" Mr. Gingrich said. "And then turn cheerfully to your Democratic counterpart and say, 'What's your plan?'"

Democrats doubt it will work and are eager to confront Republicans on the propriety of reducing Medicare benefits at the same time taxes are being cut.

"This puts the details behind the bumper stickers," said Rep. Bob Wise, West Virginia Democrat. "You just can't cut these things and expect the problem to go away. We're being handed some things

and we're grateful for them."

Democrats have guarded Medicare ferociously since its creation in 1965 and have numerous grassroots allies to assist them, including the nation's most powerful lobbying organization — the American Association of Retired Persons (AARP).

House Republican leaders met with AARP representatives last week to discuss Medicare, but a truce was not reached and one is not anticipated.

The GOP media kit does not mention the "lies" Democrats are expected to use.

If all goes as planned, Republicans will soon attempt to hold "news" events in congressional districts nationwide, built around:

- Creation of a Medicare task force to discuss potential reforms,

preferably with a senior citizen as chairman. (The kit provides a pre-written press release, including a prepared quote from the new citizen chairman).

Freshman Rep. John Fox, Pennsylvania Republican, announced his task force last week to combat negative publicity about Medicare changes in a district — where 19 percent of his constituents are 62 or older. Mr. Fox won his race with less than 50 percent of the vote in 1994, and a groundswell against Medicare could easily topple him.

- Appointment of a congressional staffer to respond to all Medicare questions and complaints. (Another pre-written press release is included).

- Creation of a Medicare hot line that seniors can use to report

errors in their bills or fraudulent doctors.

The kit provides a script and urges the lawmaker to record a voice-mail message for the hot line. The script reads in part: "Your suggestions on how to combat Medicare fraud and how to improve the current system will be very useful as the Congress considers how to preserve and protect Medicare."

Members also are advised to hold a news conference on the hot line's creation, record public service announcements and purchase advertisements in local newspapers to promote it.

- Tour senior centers and conduct "fact-finding" tours of district hospitals of health maintenance organizations.

# A Democratic 'Counter-Budget'?

THE WASHINGTON POST  
THURSDAY, MAY 25, 1995

**T**HE SENATE is about to join the House in adopting a resolution to balance the budget by the year 2002. The measures will then go to conference, where the only important difference will be the tax cut that the House had to struggle to accommodate and the Senate would defer. On that one, the Senate is right.

These are gutsy resolutions. In trying to break the current mold of government while driving down the deficit, they push in healthy directions. The Democrats complain that they go too far, and in some respects that's so. But the Democrats are hobbled in the debate because all they've found the strength to do so far is say what they're against, not what they're for. The president indicated last week that he might offer a "counter-budget" sometime after the Republicans adopted theirs. This week he seemed to be backing away even from that.

To play the role that they should in the proceedings ahead, he and the Democrats need to answer at least four questions.

(1) In 1993 Mr. Clinton rightly decided the deficit needed reducing and took a strong first step in that direction over Republican opposition. His health care plan last year was likewise offered in part as a way of bringing down the long-term deficit by containing health care costs. This year, however, as part of a panicky response to the election returns, he chose to make no proposal with regard to the deficit, and the Republicans stepped into the breach. Roles were reversed. If he now agrees with them that a further effort should be made to reduce the deficit, how much of an effort? If a balanced budget in seven years is the wrong goal, what is the right one? He won't say.

(2) It's the Republicans who this year are proposing health care cost containment in the

form of Medicare and Medicaid cuts, and the president and the Democrats who are warning that such steps would be disastrous. The president, if only in deference to his own position of a year ago, has lately begun to suggest that he too would be willing to accept some lesser Medicare and Medicaid constraints, but only in the context of broader "reform." What does that mean? If these are in fact the principal budget engines, what are his proposals for slowing them down while minimizing the social cost? There's not a single person in the administration who can authoritatively answer that question right now.

(3) The president says that before he'll negotiate, the Republicans have to back off their tax cut. He'd be in a better position to make this worthy argument if he hadn't bent to political fashion and proposed a smaller cut of his own last winter. Is he now for no cut (the right position)? Some cut? It's not enough to say merely that he's for a lesser cut than the other side.

(4) The Republicans would make some of their deepest cuts in domestic appropriations, the sixth of the spending pie that is the budget for the entire government after entitlements, interest and defense. It's the part that supports such programs as aid to education, which the president says he wants to protect. How does he protect them and still suppress appropriations, and if he doesn't want to sit so hard on appropriations, what does he propose instead?

The Republicans are having a lot of fun calling Mr. Clinton AWOL ("Absent without leadership," they happily explain). It's a tough, mean line, but Mr. Clinton invited it. The good news, from his point of view, is that he can bring it to an end by getting back into the budget wars where he belongs.

FD: [signature]  
FR: [signature]

## Way Behind on Summer Jobs

**"I NEED A JOB, not a swing set."** That was the reply of 18-year-old Damian Scott last month to Mayor Barry's promise of more recreation opportunities.

Mayor Marion Barry is lagging badly in fulfilling his often-repeated campaign pledge to create 5,000 jobs for young people this summer. As recently as a few weeks ago, Mr. Barry was promising that a job would be there for the asking for every District resident between the ages of 14 and 21 who wants to work. "Do you want a summer job?" Mr. Barry asked a teenage girl at Shaw Junior High School in March. "Did you sign up?" [Then] you're going to get a summer job," he declared. Apparently a great many more youths—and far too few prospective employers—have taken Mayor Barry's words to heart.

When summer job registration closed on April 14, the Shaw student had been joined by about 16,000 young people who also had signed up for the six-week program. Now there's an enormous problem looming just over the horizon. With the starting date less than five weeks away, Mayor Barry had rounded up only 659 private-sector and federal jobs as of noon yesterday. At that pace, the outcome isn't hard to surmise: Thousands of District youngsters who have responded to the mayor's call and are now banking on having a meaningful job and making a little money this summer will, instead, end up out of work and out of luck. That is, unless area

businesses and federal agencies weigh in as good corporate and public citizens and contribute summer youth jobs of their own.

The District government has already gone to extraordinary lengths to make sure that the city meets its share of jobs. The mayor ordered funds shifted from adult job training and retraining programs to help support the youth activity. To give work to as many youngsters as possible, the city has also reduced the hours that each youngster may work to stretch the limited dollar—e.g., 14- and 15-year-olds are reduced from 20 to 15 hours per week. Those steps should enable the financially strapped local government to put about 700 young people to work. To make the program a success this year, however, city officials hope the private and federal sectors will triple their contribution of a year ago. That means business and the federal agencies should produce about 3,000 unsubsidized jobs, according to D.C. Employment Services officials. With only 659 confirmed jobs in hand, it's easy to see how short of the mark they are.

It's worth remembering that this program isn't about Marion Barry. The purpose is to give young people an introduction to the world of work, a start on building good work habits, a solid skill-building experience and a chance to become acquainted with career opportunities. It is an investment that business and public agencies should eagerly make.

# What's News—

\* \* \* **AI**

## Business and Finance

**D**URABLE-GOODS ORDERS fell 4% in April, the biggest drop in more than three years, suggesting the economic slowdown has spread beyond weakening car and home sales. Bond prices surged on the news, with the 30-year Treasury bond gaining nearly 1½ points. Stocks gyrated but ended the day little changed.

(Articles on Pages A2, C1 and C21)

**Merrill Lynch began talks with Orange County** in what some observers believe may lead to a broad settlement with other brokerage firms over the county's ill-fated investment strategy.

(Article on Page A3)

**The trustee liquidating the Foundation for New Era Philanthropy** says it owes between \$175 million and \$225 million, well below the \$551 million estimated in its bankruptcy filing.

(Article on Page A3)

**California regulators approved a tentative plan for deregulating the state's \$20 billion electricity market** that would establish a wholesale power pool by January 1997.

(Article on Page A4)

**A grand jury is investigating Louisiana-Pacific for alleged criminal violations of environmental laws and fraud at a mill in Colorado.** The company said it expects to be indicted.

(Article on Page A4)

**Summer travel, while expected to grow from last year's level, won't show the big gains initially projected, analysts said.** High prices may hold down consumer spending, they said.

(Article on Page B1)

**Sears plans to open more non-mall outlets such as furniture and hardware stores in a bid to increase its presence outside malls and clear space in its mall stores for more apparel.**

(Article on Page A5)

**Vanguard Group's president, John Brennan, will succeed John Bogle as chief executive of the fund company.**

(Article on Page C1)

**Trade ministers ended an OECD meeting without censuring the U.S. for threatened sanctions on Japanese luxury cars.** The U.S. hailed the ministers' vague response to the sanctions as a victory in the trade battle.

**The U.S. is considering action against Japan for what American officials consider violations of U.S. airlines' rights in Asian markets.**

(Articles on Pages A10 and A16)

**Matsushita Electric Industrial, facing huge currency losses from selling 80% of MCA, expects to post a loss for its current fiscal year, but analysts said its outlook remains strong.**

(Article on Page A10)

**GM's quality rating jumped in an auto-defect study.** GM scored better than Ford and Chrysler but trailed top Japanese and European auto makers.

**GM plans to build engines for Toyota forklift trucks, the first time the Japanese auto maker has equipped a vehicle with a Big Three engine.**

(Articles on Pages A5 and B9)

**Disney plans to make a motion picture complete with stars and special effects to be distributed directly to video stores, bypassing theaters.**

## World-Wide

**SENATE GOP LEADERS DROPPED efforts to put tax cuts into a budget plan.**

Majority Leader Dole and a group of fellow Republicans, facing defeat, abandoned their attempt to write specific tax cuts into a pending balanced-budget proposal. Dole also had to postpone until today a final vote on the budget legislation blueprint as Democratic lawmakers forced mostly futile votes on amendments that were aimed at recasting the measure's spending priorities. (Articles on Pages A3 and A16)

*Provoked by the Senate actions, some House GOP conservatives sought signatures from fellow Republicans for a letter pledging to oppose any compromise with the Senate that "significantly diminishes" the House tax-cut package.*

**The government filed assault and firearms charges against a 37-year-old graduate student who was shot on the White House lawn after scaling a fence with an unloaded gun Tuesday night.** He was shot by a Secret Service guard, and the same bullet wounded another guard. Clinton said of the incident: "Just another day at the White House."

**The U.N. issued an ultimatum to the Bosnian government and Serb forces, saying the two sides must halt their fierce fighting around Sarajevo or face NATO air strikes.** The U.N. commander in Bosnia also demanded the return of heavy weapons that have been taken from U.N. storage depots.

**China took a second retaliatory step after a U.S. decision to let Taiwan's president attend a June reunion at Cornell Uni-**

**versity.** The Beijing government canceled a planned trip to Washington by a government personnel and budget administrator. A day before, Beijing cut short the U.S. visit of its air force chief and his delegation.

**A U.S. Court of Appeals panel named a Washington lawyer as independent counsel to investigate whether Housing Secretary Cisneros committed a crime by misleading the FBI about payments to his former mistress.** The lawyer appointed by the panel, David M. Barrett, has raised money for GOP candidates. (Article on Page B4)

**Much of the Superfund program could be turned over to the states, according to a plan weighed by the administration.** Under the plan, devised by the EPA and members of Gore's "reinventing government" team, 35 states would take over most cleanup responsibilities at Superfund hazardous-waste sites in four years. (Article on Page A16)

**Israel and Syria agreed on a framework for security arrangements on the disputed Golan Heights, Secretary of State Christopher announced.** He said he would go to the Middle East next month to try to close the "significant gaps" that remain.

**AIDS researcher Robert Gallo will leave the National Institutes of Health to set up a new virus-research center in Baltimore.** Gallo, one of the world's most famous and controversial scientists, said the facility initially will focus on AIDS but that it also will study leukemia, breast cancer and autoimmune disorders. (Article on Page B11)

**The National Football League voted to allow the Los Angeles Raiders to occupy a new stadium in Inglewood, Calif., an action which should keep the club from leaving Southern California.** (Article on Page B8)

**The American flag deserves special protection, backers of a constitutional amendment told a House panel.** Opponents of the amendment, which makes it illegal to burn the flag, said the measure would weaken constitutional freedom-of-speech provisions and might encourage flag-burning.

**Stroke victims recover better if they are screened for depression and placed in rehabilitation programs that fit their needs, according to newly issued federal guidelines.** (Article on Page B11)

**Russian forces launched a major artillery and air offensive against rebel positions in southern Chechnya less than a day before peace talks were scheduled to start in Grozny, the regional capital.**

**A car bomb exploded outside a hotel-casino in a Lima suburb, killing four people and injuring at least 25 others, Peruvian authorities said.** The predawn blast was blamed on Maoist Shining Path guerrillas.

**Died: Harold Wilson, 79, former British prime minister who led the Labor Party for 13 years, in London, after suffering from cancer for many years.**

THE WHITE HOUSE  
WASHINGTON

Jan -

I was out in Utah  
this weekend & was  
pleased & surprised to  
read such an editorial!

- Molly

How about  
these Bills!

Let's do coffee/  
lunch  
soon...



Estimate... that Rep. Orton's NCAs only vaguely promise. The bottom line is that Rep. Orton's 1.2 million

release" — would form the basis responsible bill for Utah wilderness.

# Medicare on the Block

The budget battle heated up in Washington this week, as President Clinton vowed to defend senior citizens from Republicans who would slash Medicare to pay for big tax cuts. Republicans fired another round of rhetoric accusing the president of dodging his budget-planning duty.

Medicare eventually will get hit. Spending must be controlled. But when the smoke clears, there must be no doubt about the purpose, value and necessity of senior citizens' sacrifices.

The president took one step toward spending control Wednesday, when he told the White House Conference on Aging that his administration is cracking down on Medicare fraud, estimated to cost the nation billions of dollars a year. Operation Restore Trust will zero in on vendors who charge outrageous prices for wheelchairs and other medical equipment, and on doctors who peek into a room and then bill for an examination.

But fraud is not Medicare's primary problem. Medicare's \$176 billion budget is increasing by 11 percent per year, more than twice the rate of health-care inflation for the society as a whole.

House Republicans propose reducing Medicare spending by \$300 billion over the next seven years to help balance the budget and pay for tax cuts. Others want to use savings to shore up the Medicare trust fund, predicted to go bankrupt by 2002, and accuse President Clinton of failing his duty to lead the charge. The president says he'll offer a plan once he knows how deeply Republicans will cut.

Clinton's reluctance is understandable. Republicans last year used his health-care reform proposal, which ad-

ressed Medicare funding, to embarrass him. The Clinton approach was to cut Medicare spending while making the entire health-care system more efficient. The argument was that unless medical costs were controlled overall, doctors and hospitals would lose money on people with limited Medicare coverage. Fewer providers would agree to take older and disabled patients, and the quality of care would decline.

It is the Republicans' turn to take a risk with health care. Let them promote politically unpopular Medicare cuts. Meantime, both Congress and the president should forget tax cuts and concentrate on stabilizing Medicare and balancing the budget.

Medicare cannot operate as usual, but no one should be left without basic, affordable health insurance. Steps must be taken now to cut program costs. Requiring participants to join health-maintenance organizations, where their choices of doctors and treatments are limited, is reasonable. Raising premiums for patients who can afford to pay more is inevitable.

The need for a viable Medicare program into the future, when more Americans reach senior status, requires that savings be used first to strengthen Medicare, not frittered away on unnecessary tax cuts. Once Medicare spending is controlled, it can help reduce the federal deficit.

But Medicare cannot stand alone against health-care inflation and deficit spending without harming its clients. Older and disabled Americans must not be asked to make health-care sacrifices just so politicians in Washington can avoid even more difficult decisions about health care and the federal budget.

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

11-May-1995 04:56pm

TO:           Gene B. Sperling  
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TO:           Jennifer L. Klein  
TO:           Christopher C. Jennings  
  
FROM:          Theo Lubke  
              National Economic Council

SUBJECT:      HOUSE GOP CONSIDERING VOUCHER PROGRAM FOR MEDICARE

Date: 05/11/95   Time: 16:35

House GOP Considering Voucher Program for Medicare

WASHINGTON (AP)   House Republicans looking for \$283 billion in savings from Medicare are considering converting it into a voucher program, with seniors getting more than \$5,000 a year to buy private insurance.

A list of options drafted by the House Budget Committee also suggests doubling the \$100 annual Medicare deductible and boosting monthly premiums for millions of beneficiaries.

The proposals would extend belt-tightening moves that Congress has taken to hold down payments to hospitals, physicians and other providers, and add many new economy measures.

One proposal would save \$19 billion over seven years by making hospitals responsible for all skilled nursing care, home health services and rehabilitation care Medicare patients get within 60 days of a hospital stay. Payment for all those services would be "bundled" into the hospital fees.

Rep. Christopher Shays, R-Conn., who heads a health task force for the Budget Committee, was preparing to send committees with jurisdiction over Medicare the list of suggestions, including three different options to reform the \$175 billion insurance program.

Shays did not release details, but a draft Budget Committee document obtained from Democratic sources outlined three different strategies to overhaul Medicare:

Giving seniors incentives to enroll in health maintenance organizations and other less expensive forms of managed care.

The annual \$100 deductible for physician and outpatient services would be doubled over two years and indexed to inflation.

All beneficiaries' Part B premiums   now \$46.10 a month   would increase by \$5 to \$6 a year. Beneficiaries would pay up to \$164 a month in premiums if their income exceeded \$70,000 for individuals and \$90,000 for couples.

Starting in 1999, new beneficiaries would be charged \$20 a month

more in Part B premiums, chiefly for physicians' services, if they wanted to retain fee-for-service coverage and avoid managed care.

Eventually, Medicare would be converted to voucher system, with the government making a set contribution to whatever plan the beneficiary chooses. Those who elected more expensive coverage would pay more out of pocket.

Going immediately with a universal Medicare voucher for private coverage. Beneficiaries would pay extra for some coverage and get ''a rebate if the plan is less than the worth of the voucher.''

The vouchers would be adjusted based on age, gender, location and disability status. The average voucher would be \$5,105 in 1996 and climb by about 5 percent a year to \$6,390 by 2002.

Currently Medicare spends \$4,763 per beneficiary and has been growing at 10 percent a year.

A plan combining \$178 billion in savings from providers and beneficiaries with an automatic mechanism to trigger \$101 billion in additional savings if the shift to privatize Medicare failed to save that much.

Rep. John Kasich, R-Ohio, the Budget Committee chairman, said spending on Medicare would still grow from \$178 billion in 1995 to \$258 billion by 2002.

But the Congressional Budget Office has projected that under current law, Medicare would spend \$319 billion in 2002 the same year its hospital trust fund is scheduled to run short of money.

CBO Director June O'Neill told the Senate Finance Committee the fund would need an additional \$165 billion to remain solvent through then.

The American Hospital Association warned the Medicare savings could drive rural hospitals out of business. Hospitals that now turn a slight profit on elderly patients could lose 21 percent, or \$1,300, on each Medicare patient they admit in 2000, hospital executives said.

''The financial picture here could be devastating,'' said Dick Davidson, president of the hospital association.

APNP-05-11-95 1636EDT

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

15-May-1995 10:04am

TO:            (See Below)

FROM:        Barry J. Toiv  
              Office of the Chief of Staff

SUBJECT:     Kasich on Medicare

For those who haven't seen it, here are comments by Kasich on the subject of Medicare on 60 Minutes last night:

"Now, will it mean that our senior citizens will be uncomfortable with the fact that they've got some higher deductibles and they find themselves in somewhat of a foreign setting from what they've been used to? Yeah, that'll be a problem. But if they cannot adapt to that, and if we cannot design a comfortable way for them to get into that kind of a setting, they won't have any Medicare in seven years. I mean, it's not like we've got a choice here. And our biggest challenge will not be medical care at the end of the day. Our biggest challenge is going to be the fear of change."

Distribution:

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## G.O.P. Suggests Smaller Benefit Adjustments

By ROBERT PEAR

WASHINGTON, May 10 — As part of their plan to eliminate the Federal budget deficit, House Republicans today recommended a reduction in the annual cost-of-living adjustment for Social Security and other Government benefits, starting in 1999.

At the same time, Republicans on the House Budget Committee suggested vast changes in Medicare, which would increase costs for many elderly beneficiaries.

More than 43 million people receive Social Security, and 37 million are enrolled in Medicare. The annual cost-of-living adjustment in Social Security is based on changes in the Consumer Price Index. Republicans said their proposal was justified because the price index, in its current form, overstated inflation by as much as 1.5 percentage points. Many economists agree that there is some overstatement, but the amount is in dispute.

Lobbyists for the elderly said the proposals violated the Republicans' campaign pledge to make no changes in Social Security. Martin A. Corry, director of Federal affairs at the American Association of Retired Persons, said: "Prior to and after the elections, Republicans made unequivocal statements that Social Security was off the table. Today's proposal is a repudiation of that campaign promise." He predicted "a firestorm" of opposition to any reduction in the inflation adjustment.

The average Social Security benefit for retired workers is \$698 a month. In recent years, the annual cost-of-living adjustment, or has been around 3 percent, and in the next decade it is expected to be 3 to 4 percent. The House Republicans would make a one-time permanent reduction of six-tenths of 1 percentage point in the Consumer Price Index, with a corresponding reduction in the inflation adjustment for 1999. This would reduce the basic amount on which future adjustments are calculated, and the cumulative effect could be substantial, totaling several hundred dollars a year for the average beneficiary over five years.

The Bureau of Labor Statistics, which computes the Consumer Price

Index, was already planning a revision for 1998. But the Congressional Budget Office said this revision was likely to slow the growth of the index by just two-tenths of 1 percentage point.

The Medicare proposals unveiled today by Representative John R. Kasich, chairman of the House Budget Committee, are far more detailed and specific than those suggested by Senate Republicans, who called for a bipartisan commission to deal with the politically explosive issue.

Republicans on the House Budget Committee recommended three dozen ways to slow the growth of Federal Medicare costs. They include higher premiums, deductibles and co-payments for beneficiaries and

### *Taking a slice out of the cost-of-living increase.*

strong new incentives for them to join health maintenance organizations, which provide comprehensive care in return for a fixed monthly fee.

Mr. Kasich said the Republican proposals would "expand health care choices for the elderly." But Mr. Corry said the Republicans were "creating a coercive environment in which Medicare beneficiaries will be herded into managed care and out of traditional fee-for-service arrangements."

Under one of the leading options, Medicare beneficiaries would receive Federal vouchers worth a fixed amount, around \$5,100 a year, to enroll in an H.M.O. or other private health plan. They would have to use their own money to make up the difference if the cost exceeded the amount of the vouchers, but they could keep most of the savings if they chose less expensive plans.

The Republicans also recommend a stiff financial penalty for new Medicare beneficiaries who refuse to join H.M.O.'s. "Beginning in 1999, all new enrollees choosing Medicare fee-for-service would pay a premium \$20 higher than that of current Medicare beneficiaries," one of the

Republican recommendations says. The premium is now \$46 a month.

The House Republicans would also reduce payments to doctors and hospitals, especially teaching hospitals and those that serve large numbers of low-income patients.

The Budget Committee recommendations are not binding on other committees. The Ways and Means Committee, for example, could choose other policies to achieve the savings required in the annual budget resolution.

But the options recommended today by Mr. Kasich were developed with House Republican leaders and are widely seen as a road map for the type of changes that will be endorsed by the full House and Senate as they try to shore up the finances of Medicare and revamp the program for millions of baby boomers who will retire in the next century.

Confidential documents from the House Budget Committee show that the Republicans are also recommending these changes:

¶ Double the amount that beneficiaries must pay for doctors' services before Medicare coverage begins. The annual deductible, now \$100, would be raised to \$200 and then increased automatically to keep pace with the growth of the program. The deductible has been raised only three times in the 30-year history of Medicare.

¶ Increase the monthly \$46 premium by \$5 in each of the next four years, then by \$6 in 2000 and in each of the following two years.

¶ Charge higher premiums for beneficiaries with incomes exceeding \$70,000 a year. The premium would more than triple, to \$164 a month, for individuals with incomes of more than \$95,000 a year and couples with more than \$115,000.

¶ Charge patients for a portion of the cost of home health care provided to elderly people residing in their own homes. Republicans said such a charge would discourage overuse of home health services, but lobbyists for the elderly said it would be a tax on frail elderly people.

The House Republicans are proposing similar charges for the use of medical laboratories and skilled nursing homes.

→ How many pay more?