MEDICARE BUDGET RECONCILIATION CONFERENCE AGREEMENT

Savings

No CBO scoring table is yet available. However, the agreement appears to closely track the House bill in its savings provisions with one exception: health plans contracting with Medicare in 1996 would receive an 8% increase in payments over 1995 levels, rather than the 5.3% increase in 1996 called for in the House bill. Presumably this higher payment is paid for through higher savings under the so-called "fail-safe" rate-of-growth limit on payments to fee-for-service providers.

Under the House bill savings would have broken down as follows:

Approximate Savings (7-year total, in billions)	
Reductions in payments to health plans	**$34**
Fraud and abuse	**3**
Part A payment reductions (mainly hospitals)	**68**
Part B payment reductions (doctors, labs, etc.)	**55**
Part B premium increases	**47**
Income-relate Part B premium	**7**
Parts A and B payment reductions (mainly home health)	**23**
"Fail-safe" rate-of-growth limit	**33**
TOTAL	**$270**

Medicare "Plus"

The provisions providing for payments to additional types of health plans are similar to those included in the House-passed bill. The Secretary would contract with health insurance plans, with Provider Service Organizations (PSOs), with Taft-Hartley plans, and with Association plans. Health insurance plans could include indemnity fee-for-service plans as well as managed care plans such as HMOs. Plans would be required to be licensed under State laws, except that PSOs could apply to the Secretary for a waiver of this requirement if the State attempted to impose unreasonable standards or failed to act on a licensure application from a PSO in a timely manner.

As under the House bill, all state-licensed insurers, HMOs, and other health plans would be "considered to meet" the Federal standards during the initial year of operation. Association and Taft-Hartley plans are not required to be organized and licensed under State law

The bill appears to preclude health plans from charging Medicare beneficiaries any additional premium for the basic Medicare benefit package. However, staff have indicated that the bill is supposed to allow health plans to charge an additional premium for the basic package if the price of the benefits exceeds Medicare's contribution.

Payments to health plans would be based initially upon 100% of the current AAPCC rates inflated by specific annual percentages set forth in the bill which, other than an 8% growth rate for 1996, are derived from the percentage growth allowed Medicare under the budget resolution. Payments in each county would be further modified by blending the county-specific rate with an input-price adjusted national rate on a phased in basis which would start in 1996 at 10% national, 90% county-specific and reach 30% national, 70% county-specific in 2000. A floor would be set for payments of $300 per month in 1996 and $350 in 1997, inflated by the national growth rate in subsequent years. A minimum growth rate of 2% would also be established.

Balance billing.--As under the House-passed bill beneficiaries who received services under a Medicare plus plan from providers who did not have a contract with the plan would not be protected by Medicare's balance billing limits. This would occur with all services in a fee-for-service plan or with out-of-network services in a point-of-service plan.

Anti-trust.--The bill provides partial anti-trust protection to providers establishing PSOs.

Medical Savings Accounts.--Medical savings accounts are included in the conference agreement. Individuals would be allowed to disenroll from MSA high-deductible plans every 12 months, thus exacerbating the risk selection dangers of MSAs

ProPAC and PhysPRC.--As under the House-passed bill, ProPAC and PhysPRC are abolished and replaced with a single Medicare Payment Review Commission.

Part B Premium and Other Beneficiary Payment Changes

As under the House-passed bill, the Part B premium would be established at 31.5% of Part B expenditures. All receipts from the higher Part B premium would be deposited into the Part A Trust Fund. In addition, higher-income beneficiaries would begin paying higher premiums at $50,000 per individual/$90,000 per couple and would pay 100% of the Part B premium at $100,000 individual/$150,000 per couple.

Fraud and Abuse Provisions

The conference agreement would apply Medicare and Medicaid's anti-fraud and abuse provisions virtually to all payers and would establish new Federal criminal sanctions against health fraud and abuse. The Conference agreement goes another step beyond the House provisions for mandatory spending for the Inspector General and for Medicare "Integrity" by providing for mandatory spending for the FBI. The conference agreement makes transfer of assets in order to qualify for Medicaid a Federal offense.

Standard of proof for civil money penalties.--As in the House-passed bill, the conference agreement raises the standard of proof for the government to impose a civil money penalty.

Physician self-referral.--The conference agreement includes the House-passed provision which removes all prohibitions against physicians referring patients to entities with which they have a compensation arrangement. Radiation therapy services, durable medical equipment, prosthetics and orthotics, home health services, outpatient prescription drugs, and inpatient and outpatient hospital services are removed from the list of services to which the self-referral ban applies. Ambulatory surgical services, renal dialysis facilities, hospices, and comprehensive outpatient rehabilitation facilities are exempted from the self-referral ban, Changes enacted in 1993 could not be implemented until regulations are promulgated.

Part A Payments

Hospital payments.--Hospital updates have been reduced by two percentage points in each of the next seven years

"High Medicare" hospitals.--Payments are increased by 0.5 percentage points in 1996 and by 0.3 percentage points in 1997 from what they would otherwise be for hospitals with a high proportion of Medicare patients

Indirect Medical education.--The IME adjustment is reduced to 5.0 percentage points between 1996 and 2001.

Disproportionate share adjustment.--The DSH adjustment is reduced 30 percent between 1996 and 1999

Part B Payments

Physician payments.--A single conversion factor is established which has the effect of reducing surgeon payments substantially while assuring that other physicians will not receive a negative update

Other Part B services.-- Payments for clinical laboratory services, ambulatory surgery, durable medical equipment and ambulance services are frozen for seven years

Graduate Medical Education

As in the House-passed bill, a Graduate Medical Education Trust Fund financed by general revenue would be established. Receipts to the fund would equal $13.5 billion over the next seven years. Provisions ending funding for non-U.S. citizen residents have been deleted.

"Fail-safe" Rate of Growth Limit

As under the House-passed bill, a "fail-safe" rate-of-growth limit would be imposed on fee-for-service payments. Because of higher payments to health plans in 1996 and other changes, this provision will produce more savings than under the House-passed bill.

SUMMARY OF MAJOR MEDICARE PROVISIONS

ISSUE	HOUSE	SENATE
Savings Target	$270 billion over 7 years	$270 billion over 7 years
Outlay Targets	FY 97, $208.0 B; FY 98, $217.1; FY 99, $228.4; FY 2000, $246.4; FY 2001, $265.5; FY 2002, $288.0	FY 96, $193.3 B; FY 97, $206.5 B; FY 98, $219.7; FY 99, $233.5; FY 2000, $249.6; FY 2001, $266.9; FY 2002, $285.6
Expenditure Limits Mechanism	Failsafe: Reduces payment rates automatically if target allotments are projected to be exceeded. • Operates on a sector-by-sector basis. • Lookback mechanism further adjusts payments rates if sectoral expenditures two years previously deviated from sectoral targets. Applies only to Medicare fee-for-service	BELT: Reduces payment rates automatically if target allotments are projected to be exceeded. • Operates through aggregate cap. • No lookback mechanism. Applies only to Medicare fee-for-service
Health Plan Options	Medicare fee-for-service or "MedicarePlus"	Medicare fee-for-service or "Medicare Choice"
	• MediSave: High deductible plan in conjunction with medical savings account (MSA) (maximum deductible $10,000, indexed)	• High-deductible plan in conjunction with Medicare Choice Accounts (minimum deductible $3,000 per year; maximum cost sharing $6000).
	• Coordinated care plans (HMO,POS,PPO)	• Similar
	• Union, Association, or Taft-Hartley plans	• Union, association, or Taft-Hartley plans
	• Private fee-for-service plan	• Similar
	• Provider service network (PSN)	• Similar

ISSUE	HOUSE	SENATE
PROGRAM REQUIREMENTS: MEDICARE PLUS and MEDICARE CHOICE		
Eligibility	All beneficiaries entitled to Part A and enrolled in Part B are eligible to enroll in a MedicarePlus plan, including ESRD beneficiaries.	All beneficiaries entitled to Part A and enrolled in Part B are eligible to enroll in a Choice plan, except those with ESRD.
Enrollment	Enrollment process established by Secretary and conducted by plans. Annual open enrollment period.	Same, except Secretary conducts enrollment process.
•Auto-assignment	Traditional Medicare if beneficiary does not elect an option	Same
	Same plan from year to year unless beneficiary elects to change	Same
•Disenrollment	During annual open enrollment period or "for cause"	Same, except Secretary conducts disenrollment process by notifying Medicare Choice plan.
	90-day free-look period; must stay in MSA for 12 months	90-day free-look period for all Med. Choice options; must give 12 month notice before disenrolling from MSA.
Administration	Office in HHS separate from HCFA	No provision
• Contracts	MedicarePlus plans (except MSAs) must have a contract with the Secretary. Contracts would be for one year and automatically renewable.	All Medicare Choice plans must have contract with the Secretary.
	The Secretary may audit and inspect, and may invoke intermediate sanctions or termination for failure to meet terms.	Same
Information	Secretary (through contracts) to disseminate information on coverage options to beneficiaries	Similar, except Medicare Choice plans can distribute their own marketing materials if they meet certain requirements.

ISSUE	HOUSE	SENATE
Benefits	Current Medicare benefit package, except MSA	Same, except plans may offer additional services (unless these additions will substantially discourage enrollment).
• Premiums and Rebates	If Medicare payment exceeds the adjusted community rate, plans must provide additional benefits, cash rebates (up to the amount of the Part B premium) or a combination, in value equal to the difference. If Medicare payment is less than plan premium, the plan could charge enrollees the difference. Plans could also charge a premium for benefits in excess of those provided under the adjusted community rate.	If Medicare payment exceeds plan premium, beneficiary can receive 75% of difference in cash (25% goes to HI Trust Fund); 100% in supplemental benefits; or 100% deposited in a MSA (even if the beneficiary is not in a high-deductible plan). If Medicare payment is less than plan premium, the beneficiary is responsible.
Plan Standards	NAIC would develop standards for MedicarePlus plans (except those noted below); the Secretary would issue regulations based on NAIC's standards (if consistent with the statute). States could certify and enforce if their processes approved by Secretary. Secs. of HHS and Labor would establish standards, certify, and enforce for union and Taft-Hartley plans. The Secretary would establish standards (by 9/1/96), certify, and enforce for PSNs. Preempts State laws governing MedicarePlus plans.	States license all plans (except union, Taft-Hartley, association plans), but the Secretary shall establish a temporary certification process, which sunsets and can be used only under limited conditions. The Secretary shall establish standards for solvency and quality assurance.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

ROUTE SLIP

TO: Jennifer Klein

Take necessary action	☐
Approval or signature	☐
Comment	☐
Prepare reply	☐
Discuss with me	☐
For your information	☐
See remarks below	☐

FROM: Kountoupes DATE: 11/7/95

REMARKS:

Thanks for breakfast!
Enclosed plse find:

1. Coalition "principles" (developed w/ Sen staff)
2. Coalition summary

This has not been widely circulated plea sehold close

3. Hse/Sen Reconciliation SAPs FY1

plse call if you need anything else 54790

Q Lisa

OMB FORM 4
Rev Aug 70

Coalition Principles for Reconciliation Bill

1. The deficit reduction glide path should be enforced by a mechanism that forces Congress and the President to take action if the deficit is higher than projections. A strong enforcement component is critical if changes are made in economic assumptions or if tax cuts are included in the package.

2. The deficit should decline each year on a reasonable glide path toward balance in 2002. The deficit should not increase in any year.

3. Any tax cuts enacted up front should be fully offset by the elimination of corporate subsidies in the tax code. Any additional tax cuts should be contingent on the budget achieving lower deficit levels as a result of the economy performing better than projected by CBO.

4. The reconciliation bill should include a correction in the Consumer Price Index in order to spread the burden of deficit reduction in a fair manner.

5. The welfare reform provisions should provide sufficient funding to meet the work requirements to move individuals off of welfare and into work without placing an unfunded mandate or undue restrictions on the states and should guarantee child care assistance to individuals who need child care to move off of welfare and into work.

6. The basic guarantees of coverage under Medicaid should be preserved with a reasonable rate of growth. The Qualified Medicare Beneficiary Program should be maintained. Basic standards for Medicaid coverage and the floor on payments to hospitals should be preserved.

7. The discretionary spending levels should provide room for sufficient funding for investments in health care, education programs and economic development.

8. The reconciliation bill should provide a sustainable rate of growth in Medicare spending that is comparable to private sector growth. Payments to hospitals should not be cut by more than $60(?) billion.

9. The budget should not require reductions in student loan programs .

10. Agricultural programs should not be asked to make unreasonable reductions that undermine agricultural policy and harm the international competitiveness of U.S. agriculture.

Issues about Reconciliation Alternative

Medicare

1. Does the administration have a general position on the proposal by the Coalition or the Republicans to expand choice in Medicare?

2. Does the administration have any specific concerns about the provisions expanding choice in the Coalition alternative.

3. Which specific provisions in the Coalition alternative reducing the rate of growth in Medicare does the administration have the greatest concern with? Which areas are cut too much?

Medicaid

1. Is the overall approach in the Coalition alternative on reconciliation consistent with the President's position (exclusive of the savings level)?

2. Does the administration have concerns with any of the specific Medicaid provisions in the Coalition alternative?

3. Are there additional Medicaid reforms that were assumed in the President's budget that were not in the Coalition alternative?

Discretionary

1. What are the administration's priorities within discretionary spending. Is there a list of proposed discretionary spending by function or appropriations subcommittee based on the President's June budget?

Welfare

1. Does the administration object to the total welfare savings in the Coalition alternative?

2. Are there any additional welfare reform savings not in the Coalition substitute that the administration supports?

The President's June budget proposed $21 billion in food stamp savings, $3.5 billion higher than in the Coalition alternative. What (if any) specific savings were assumed in the President's plan to achieve the higher level of savings that were not in the Coalition plan.

What policies (if any) are assumed in the $13.5 billion in savings over seven years from "cash assistance" in the President's June budget. How much of the savings is from SSI and how much from AFDC.

3. Would the administration accept the food stamp savings in the Senate bill in a final welfare reform bill?

4. Does the administration object to any of the specific welfare reform provisions in the Coalition welfare reform bill?

Inclusion of welfare benefits in taxable income

Reapplication requirement for SSI

5. Would the administration object to the proposal that was in the original Coalition reconciliation alternative requiring the Secretary of HHS to narrow the standards for SSI eligibility based on mental impairments to place less emphasis on factors such as ability to concentrate, persistence and pace of work performance and ability to tolerate increased mental demand from high pressure work?

6. What does the administration support regarding benefits to non-citizens?

Is the language from the Deal substitute on immigration (which was incorporated in the Coalition reconciliation alternative) still the official administration position on immigration?

Would the administration support the Senate language on immigration if it was modified to address the concerns mentioned in Director Rivlin (allow immigrants to receive benefits upon receiving citizenship, eliminate provisions requiring sponsors to have income of greater than 200 percent of poverty, exempt immigrants who become disabled after entering the country from the denial of SSI, eliminate provisions applicable to discretionary programs, student loans, Social Services Block Grants, and elementary and secondary education, adopt exemptions from the House bill or Deal substitute and modify provisions relating to Medicaid)?

Enforcement / Budget process reform

1. Does the administration support the concept of providing enforcement which forces Congress and the President to take action if the deficit exceeds specified targets?

2. Does the administration have any views on the specific deficit enforcement provisions in the Coalition budget?

3. Does the administration have a position on the other budget process reforms in the Coalition alternative?

Extending PAYGO window to ten years

Eliminating inflation adjustment for discretionary caps (included in Republican bill)

Providing the President with line item veto authority for fiscal year 1996.