Withdrawal/Redaction Sheet
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Chris Jennings, Steve Edelstein Re: Meeting with Senator Kerrey (2 pages)	5/27/93	P5

COLLECTION:
Clinton Presidential Records
Domestic Policy Council
Chris Jennings (Health Security Act)
OA/Box Number: 8990

FOLDER TITLE:
[HSA]- Senator Kerrey (NE) [2]

gf141

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advise between the President and his advisors, or between such advisors [a)(5) of the PRA]
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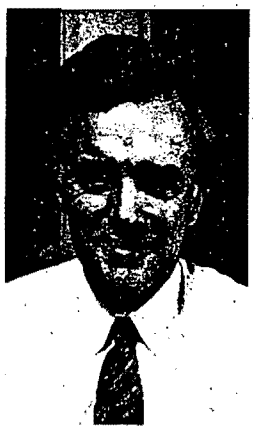
Kerrey file

THE SOUNDS OF TWO SENATORS WAFFLING

Given the heavy political lifting required to get universal health care coverage through Congress and the countervailing G-forces of interest groups, ideology and reelection campaigns, it's not surprising that some knees have buckled, bringing what once were firmly held principles crashing unceremoniously to the floor.

Consider Sens. Bob Packwood, R-Ore., and Robert Kerrey, D-Neb., two political moderates whose votes for health care reform the Clinton Administration and Senate leaders had originally banked on. Once stalwarts in the cause of universal coverage, the two have recently found the political weight so unsupportable that they've spun 180 degrees in their rush to set the barbells down.



Susan M. Muniak (left); Richard A. Bloom

Sen. Robert Kerrey, D-Neb. Sen. Bob Packwood, R-Ore.

Packwood, the ranking Republican on the Finance Committee, publicly supported employer mandates for 20 years—up through his hard-fought 1992 reelection campaign—before he abandoned support for any kind of mandate this summer on the eve of the committee's vote. He subsequently teamed up to co-author a halfway reform package with Senate Minority Leader Robert Dole, R-Kan., who'd just abandoned his own support for a mandate on individuals to buy insurance.

Kerrey, who campaigned for the Democratic presidential nomination in 1992 on a platform of taxpayer-financed national insurance, replete with government-set health spending limits, abandoned it by degrees this summer before he announced in early August that he'd oppose even the heavily diluted employer mandate provision pitched by his party's leadership.

Packwood, after offering a long and tortured explanation of his reversal on the opening day of the Finance Committee's deliberations on June 29, has assumed a prominent role in the campaign against a Democratic alternative that looks almost exactly like his own earlier policy prescription. Without batting an eye, Packwood recently told PBS's Robert MacNeil that "I started out supporting" employer mandates, but "when I heard the facts, I changed my mind."

Kerrey, who already had a penchant for agonizing aloud, not only announced his opposition to the health plan of Senate Majority Leader George J. Mitchell, D-Maine, in a speech on the Senate floor, but also took the extra step of holding a Washington press conference on the matter.

Both reversals court voter cynicism. After all, Packwood's embrace of universal coverage through employer mandates during his reelection campaign helped to undercut support for his Democratic challenger, former Rep. Les AuCoin, who advocated a single-payer system. Packwood also argued that he was better placed than AuCoin—by virtue of his seniority, his ranking position on the Finance Committee and his moderate position—to be a serious player on health care reform.

But earlier this year, as Dole began backing off his support for universal coverage through an individual mandate, Packwood began softening his stance. Still, even as late as mid-June, Packwood supported the idea of fallback individual mandates in a meeting with President Clinton at the White House. Then, on the opening day of the Finance Committee's deliberations, Packwood officially renounced his support for universal coverage and mandates of any sort.

Rather than slink silently into his chair, Packwood felt compelled to give a lengthy and convoluted explanation of his reversal. Paraphrasing a retired colleague, Packwood said: "Anything that the public really wants badly we will get. It may take two or three Congresses. That is not a long time in the history of the Republic." Packwood first introduced health care legislation with employer mandates in the 93rd Congress.

Packwood's explanation doesn't seem to have stanched the snickering on Capitol Hill or back home, where it's taken for granted that his interest had shifted from extending Americans' health care coverage to securing his own political cover in the wake of the sexual harassment charges pending against him in the Senate Ethics Committee. Faced with ebbing institutional clout and possible disciplinary action, Packwood couldn't very well refuse Dole's invitation to play Follow-the-Minority-Leader.

Kerrey's support for universal coverage may have been much more short-lived than Packwood's, but it was far more public. Gearing up for his 1992 presidential bid, Kerrey beat most of his Democratic rivals to the punch by picking universal health coverage as his cause célèbre and by coming up with by far the most detailed blueprint of the group. Indeed, it was Kerrey's continued haranguing on the topic that forced front-runner Clinton to flesh out his promise of universal coverage.

In an article for *The American Prospect* in the summer of 1991 titled "Why America Will Adopt Comprehensive Health Care Reform," Kerrey argued against just the sort of incremental health care reforms he's been lobbying for since this spring, when he teamed up with a bipartisan group of Senate centrists. Kerrey then: "Only a single-payer system eliminates a multi-tier approach to health care that inevitably underfunds the bottom tier and creates inefficiencies throughout." Kerrey now: "Government intervention to expand coverage is risky. . . . We should be very cautious to presume that government can get the job done." Kerrey then: "The only reliable and efficient way to control health care costs is to do so directly by setting over-all expenditure limits." Kerrey now: "We should use the forces of the market to control costs instead of the dictates of government."

Kerrey, of course, is running for reelection in a heavily small-business state that is also home to some major health insurance companies, including Mutual of Omaha Insurance Co. And he's racked up at least $180,000 in campaign contributions from insurance, pharmaceutical, hospital and other health care interests.

Like Packwood, he seems to have calculated that a public about-face is the lesser of the political risks he faces. And like Packwood, he appears to hope that by taking his case to the voters, he can persuade them that he has rethought the national interest—and not merely redefined his political self-interest. ■

Troy K. Schneider provided research assistance for this report.

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ATTACHMENT 1

Health Care Trust Fund Proposal
versus
the Deficit Reduction Trust Fund

- The health care trust fund targets the most quickly growing element of the federal budget, health expenditures. Approximately seventy percent of the year-to-year increase in the federal budget is driven by health spending. A deficit reduction trust fund would be general in nature.

- The trust fund would place these program costs on a pay as you go basis, thus creating pressure for cost control. As projected costs outpace earmarked revenues, Congress would need to cut expenditures, raise taxes, or both to balance the fund. Under the revenue mix identified in the proposal, this effect would be felt in FY 1994 with a $10 billion shortfall. A deficit reduction trust fund would not force these types of budget decisions.

- The trust fund creates a permanent appropriation from general revenues which will be triggered if the fund does not balance. This permanent appropriation will impact other discretionary spending, thereby forcing Congress to choose, through budget reconcilliation, whether to cut other spending, raise other taxes, or balance the fund. Congress will not be able to avoid making a difficult policy decision on budget priorities. Because the deficit reduction fund proposal does not include this type of budget trigger, it would not force Congress to make these choices.

- The trust fund provides an avenue for reconsidering how the United States funds its health care spending. Congress can alter the mix of revenues flowing into the fund to relieve employers from the burden of the current payroll tax and remove employment disincentives, increase the share of health care funded by "sin" taxes, or improve the progressivity of revenues dedicated to health.

- The trust fund should be an integral component of comprehensive health reform. It will bring much needed fiscal clarity and fiscal discipline to federal health spending. However, it is not the sole solution to America's health care crisis.

ATTACHMENT 2

Concerns About the Trust Fund (expressed by Senator Kennedy)

- The trust fund might allow Congress to avoid hard decisions about cost-containment and expanded access to health care.
- Pooling discretionary and mandatory programs in the same fund will allow mandatory programs to "swallow up" other programs.
- Health programs should compete against all other budget priorities, not just against each other.
- Seniors may be concerned about merging the HI and SMI trust funds into a larger pool.

Response

The trust fund proposal neither shields Congress from difficult budget decisions nor sacrifices health programs -- either discretionary or mandatory -- through the guise of a global budget. Rather, it creates a mechanism which forces Congress to make deliberate choices about its budget priorities, inside and outside the trust fund, and commit to fully funding the most quickly growing portion of the federal budget.

The proposal groups all federal health expenditures into a single fund and mandates that these expenses be covered on a pay as you go basis from earmarked revenues. Congress can choose to expand federal health programs, but then it must also raise taxes to cover increased expenditures. The trust fund would include a permanent appropriation from general revenues which will be triggered if the fund does not balance. This permanent appropriation will impact other discretionary spending, thereby forcing Congress to choose between balancing spending and revenues within the trust fund and cutting spending or raising taxes in the overall budget. The competition between health programs and other programs will be explicit.

The trust fund would ensure that health care expenditures are debated, as they should be, in the context of the full federal budget. The year-to-year increase in the federal budget is largely driven by health care spending; by making a commitment to fully funding these expenditures, we will be

attacking the budget deficit and making fully-informed policy choices.

Health care entitlement programs are expanding more rapidly than other health care spending, or any other federal spending programs. Discretionary health spending on important public health priorities, such as the National Institutes of Health, are vulnerable today to continued escalation in entitlement spending. The trust fund will also pressure Congress to find effective cost-containment mechanisms to rein in the health entitlement programs, such as expanded use of managed care and tighter limits on provider payments while also continuing to fund important programs like the NIH. The discretionary health programs should be budget priorities, but Congress also needs to pay for them.

While senior citizens may be concerned about merging Medicare funds into a unitary health care trust fund, they will be primary beneficiaries of the unified fund. The trust fund does not diminish the federal government's commitment to the integrity of the Medicare program. In fact, I believe that the elderly will be better served by being part of the overall health care budget -- their care will be financed as an integrated piece of health spending.

Finally, the health care trust fund proposal is not a complete solution to America's health care crisis. It would be an important first step to bring needed fiscal discipline to health spending, and it would pave the way for full financing of comprehensive health reform.

ATTACHMENT 3

J ROBERT KERREY
NEBRASKA

United States Senate

WASHINGTON, DC 20510-2704

May 5, 1993

Dear Colleague:

I am writing to call your attention to legislation I will soon introduce to establish a National Unitary Health Care Trust Fund, which would group all federal health expenditures into one trust fund and would mandate these expenditures to be disbursed on a pay as you go basis.

This trust fund should precede enactment of comprehensive health care reform legislation. The federal trust fund will become the foundation for the financing debate which will accompany health reform. A health care trust fund, analogous to the Social Security trust fund, will allow us to account for and monitor federal health expenditures. It would also help the American public become a larger and more informed participant in the health care debate.

A health care trust fund will serve three important purposes:

1. It will force needed fiscal discipline on the health care system by fully financing federal health care spending. Currently, health care expenditures are the fastest growing area of the federal budget. Federal spending is projected to jump by $34 billion from FY93 to FY94 alone.

2. It will allow us to present an invoice to the American public of the government's share of health expenditures. This year the federal government will spend $284 billion directly on health care services and another $80 billion indirectly through the tax code.

3. It will force us to decide which taxes we want to use to pay the bills. Americans need to see that nearly three hundred billion of their federal taxes are already being collected and spent for health care.

The health care trust fund would include all federal spending for health services, including Medicare, Medicaid, VA, the Department of Defense health programs, and the Federal Employees Health Benefits Program. In addition, the trust fund would also cover the research and infrastructure investments funded through the National Institutes of Health, the Centers for Disease Control, and other Public Health Service programs. At this point I have not proposed including the indirect expenditures made through the current tax system because uncollected taxes are not part of the budget process.

In Year 1, the current fiscal year, federal expenditures for these programs will total $284.3 billion. I propose designating five current sources of revenue to meet these expenditures:

1. The 2.9% payroll tax equally divided between employers and employees (currently designated for Medicare Part A);

2. Health insurance premiums (collected for Medicare Part B);

3. All excise taxes for cigarettes and alcohol;

4. Individual income taxes, the first 27% of taxes collected or approximately the first 6% of individual taxable income; and

5. Corporate income taxes, the first 27% of taxes collected.

During Year 2, FY 1994, direct federal expenditures are projected to grow by $34.2 billion to $318.5 billion. However, designating the same revenue sources in FY94 as FY93 will produce only $308 billion. Thus, in Year 2, there will already be a shortfall of approximately $10 billion. In order to keep the fund in balance, at that time, either spending must be cut or additional taxes must be raised to cover the shortfall.

There are many possible alternatives that will cover these additional federal health expenditures. The trust fund gives us an opportunity to debate different methods of paying for federal health programs, including "sin" taxes, consumption taxes or income taxes; or spending reductions.

I would be happy to discuss this proposal with you in greater detail. If you have any questions, please contact Karen Davenport of my staff at 4-6551. Thank you for your interest.

Sincerely,

J. Robert Kerrey

COPY

ATTACHMENT 4

J. ROBERT KERREY
NEBRASKA

United States Senate

WASHINGTON, DC 20510-2704

May 5, 1993

Mrs. Hillary Rodham Clinton
The White House
Washington, D.C. 20500

Dear Hillary:

Enclosed please find materials on a proposal for a National Unitary Health Care Trust Fund which we have previously discussed. The use of a trust fund to account for federal health care expenditures has many advantages, including providing a foundation for an honest argument about the need for fully-funded comprehensive health care reform.

I see three benefits of this unitary trust fund:

1. Assuming the trust fund is set up on a "pay as you go" basis, it will force needed fiscal discipline on the health care system by fully accounting for federal health care expenditures. Currently federal health care expenditures are the fastest growing area of the federal budget. From FY93 to FY94 alone, federal health expenditures will increase by $34 billion.

2. It allows us to present an invoice to the American public on the share of health expenditures currently funded by the government. This will refute the weak arguments of opponents of health care reform that we do not want a health care system that includes large federal government involvement. We already have such a system. This year the federal government will expend $284 billion on direct health care services as well as another $80 billion indirectly through the tax system. The government pays nearly 40% of all health expenditures in the United States.

3. It sets the stage for debate on which taxes to use to pay for health care. Opponents of health care reform are already accusing President Clinton of supporting a tax increase for health care. Americans need to see that taxes are already being collected and

spent on health care.

In discussing the idea of a federal health care trust fund with advocates for health care reform, I spoke with Henry Aaron of the Brookings Institute. By a fortunate coincidence, it turns out that Mr. Aaron has advocated for several years the establishment of such a trust fund. He discusses the trust fund idea in his book, *Serious and Unstable Condition: Financing America's Health Care*, Brookings 1991. He states that, "Because health care expenditures are large and certain to keep growing, it would be sound budgetary procedure to....finance federal expenditures on health care through a trust fund, like those now used for social security pensions and medicare hospital benefits " (pp. 146-47). I have attached a letter Mr. Aaron sent me subsequent to our meeting.

The attached charts illustrate how the trust fund would work. First, all federal health care expenditures must be part of the fund, including money spent on, *inter alia*, FEHB and NIH. At this point I have not proposed including the indirect expenditures made through the current tax system, which total approximately $80 billion for FY93 in the trust fund because uncollected taxes are not part of the budget process.

In Year 1, the current fiscal year, federal health expenditures will total $284.3 billion. I have designated five sources of revenue to pay for these expenditures:

1. The 2.90% payroll tax equally divided between employers and employees (currently designated for Medicare Part A);

2. Health insurance premiums (collected for Medicare Part B);

3. All excise taxes for cigarettes and alcohol;

4. Individual income taxes, the first 27% of taxes collected or approximately the first 6% of individual taxable income; and

5. Corporate income taxes, the first 27% of taxes collected.

Table 2 illustrates how Year 2, FY94, of the trust fund would work. Direct federal expenditures are projected to grow by $34.2 billion to $318.5 billion. However, designating the same revenue sources in FY94 as

FY93 will produce only $308 billion. Therefore, in Year 2, there will already be a shortfall of approximately $10 billion. In order to keep the fund in balance, at that time, either spending must be cut or additional taxes must be designated or raised to cover the shortfall.

Let me demonstrate how the trust fund would encourage a vigorous and honest debate about appropriate taxes to use for health care expenditures. For example, another alternative scenario for designating taxes for the trust fund which I find attractive, would be to use the following taxes in FY94:

1. Health insurance premiums	$ 14.6 billion
2. Progressive consumption tax	$120.0 billion
3. Tobacco Excise Taxes (includes $0.70 increase per pack)	$ 15.9 billion
4. Alcohol Excise Taxes	$ 7.7 billion
5. Corporate Income Taxes	$ 32.4 billion
6. Individual Income Taxes	$127.9 billion
TOTAL	$318.5 billion

This scheme could be criticized because I am supporting new taxes for health care. However, my argument is that I am eliminating a 3% payroll tax which relieves the burden on employers as well as reducing allocated individual income tax.

There are many possible alternatives for designating the taxes needed to cover federal health expenditures besides the ones I have discussed here. Under all these scenarios, however, the trust fund gives us an opportunity to debate different ways to pay the federal share of health expenditures. It is worth noting that Henry Aaron proposes that the federal trust fund capture amounts currently expended by the states for Medicaid. *Serious and Unstable Condition*, p.p. 146-47. Others have advocated state and federal swaps of program responsibilities, i.e. Medicaid for AFDC. These proposals open the door for welfare reform.

A proposal on the appropriate taxes to designate for health care expenditures should be presented to the American public before the introduction of a comprehensive reform proposal. The federal trust fund concept will lay the groundwork for the financing debate we will need with a new reform proposal. The trust fund alone cannot prevent cost

shifting as a way of lowering federal health expenditures. However, public awareness of increases in federal health care cost will impose some discipline on the entire health care system. If, like the social security trust fund, we account for and monitor federal health expenditures, the American public will be a larger and more vocal participant in the health care system. In conjunction with the forthcoming comprehensive reform, the trust fund will begin to solve our nation's health care crisis.

Legislative Counsel is redrafting the bill; it should be done soon. I look forward to discussing this proposal with you and appreciate your interest.

Sincerely,

J. Robert Kerrey

Table 1, *Proposed Health Care Fund*, FY93

DRAFT

Fiscal Year 1993

Expenditures (in billions)		**Revenues** (in billions)	
		Current Earmarked Revenues	
Medicare	$149.2	Medicare:	
Medicaid	80.3	Payroll Tax	91.8
Veterans	14.9	Premiums	14.6
Dept. of Defense	15.0		
Other **	24.9	*Additional Revenues*	
		Excise:	
		Tobacco	5.7
		Alcohol	7.8
		Income:*	
		Corporate	29.7
		Individual	135.3
Total	$284.3	Total	$284.9

* 27% of Corporate and Individual Income Taxes Collected (or approximately the first 6% of individual taxable income)

** Other includes Public Health Service, Other HHS and FEHB

Source: CBO Projections, February 1993

DRAFT

Table 2, *Proposed Health Care Trust Fund*, FY94

Fiscal Year 1994

Expenditures (in billions)		**Revenues** (in billions)	
		Current Earmarked Revenues	
Medicare	$169.7	Medicare:	
Medicaid	91.9	Payroll Tax	102.3
Veterans	15.7	Premiums	16.8
Dept. of Defense	15.0		
Other**	26.2	*Additional Revenues*	
		Excise:	
		Tobacco	5.9
		Alcohol	7.7
		Income:***	
		Corporate	32.4
		Individual	143.4
Total	$318.5	Total	$308.5

* Dept. of Defense projection unavailable, 1993 estimate used

** Other includes Public Health Service, Other HHS and FEHB

*** 27% of Corporate and Individual Income Taxes Collected (or approximately 6% if individual taxable income.)

Source: CBO Projections, February 1993

ATTACHMENT 5

THE BROOKINGS INSTITUTION

1775 MASSACHUSETTS AVENUE, N.W. WASHINGTON, D.C. 20036-2188
TELEPHONE: 202/797-6000 FAX: 202/797-6181

Economic Studies Program

30 March 1993

Senator Bob Kerrey
United States Senate
Washington, DC 20510

Dear Senator Kerrey:

Thank you for the opportunity to discuss federal spending on social security and medical programs last week.

I was particularly intrigued with your proposal to establish a trust fund that would be used to pay for essentially all federal health care programs and which would receive earmarked taxes designated to pay for those programs. If spending grew faster than taxes, Congress would be required under your proposal to allocate additional revenues to the trust fund.

This proposal is quite similar to one that I advanced in a book on health care financing, *Serious and Unstable Condition: Financing Americas' Health Care*, Brookings, 1991, on pages 137 to 151 and suggested again by Charles Schultze in our co-edited book *Setting Domestic Priorities: What Can Government Do?*, Brookings, 1992, pp. 310 to 314. Our framework is identical to the one you sketch, with one exception that may be significant.

We propose earmarking a specially dedicated tax to the trust fund (together with the payroll tax for medicare, SMI premiums, and revenues from the "sin" taxes). Should spending grow faster than revenues, tax rates on the earmarked taxes would have to be increased. Charles Schultze and I are persuaded that the need to raise taxes if spending on health care grows rapidly will put the question of how much the nation is prepared to spend on health care squarely before the American people and its elected representatives. The need to raise taxes will limit any possible Congressional tendency to want to sweeten benefits.

Earmarking a part of the personal income tax would serve this function quite well *provided that* Congress treated any increase in the proportion of the tax allocated to the trust fund as forcing an increase in personal income tax rates. However, we know of no procedural device that could bind future Congresses to link changes in the share of income taxes designated to the trust fund to changes in income tax rates. For this reason, I think that use of a special tax, all of the revenue from which was allocated to the health care trust fund, is preferable. A value-added tax is the only revenue

instrument capable of generating sufficient revenues to pay for the bulk of federal health care programs.

Both Democrats and Republicans should be able to find in your proposal a way to help pay for current health care obligations and for financing reform. It can help discipline government spending. It can help reduce the overall deficit. I wish you the best of fortune in persuading your colleague in the Senate and members of the House of Representatives to support your initiative.

Sincerely yours

Henry J. Aaron
Director

Health Care Reform: It's a Necessity For Both Ethical and Economic Reasons

By Sen. Bob Kerrey

Enacting comprehensive health care reform is not an option; it is a necessity. Rising federal costs and a lengthening list of avoidable tragedies dictate that we act. We may [illegible] economics and ethics [illegible] delaying for long.

Without comprehensive health reform, deficit reduction will remain a dream. President Clinton's first budget is 3.2 percent larger than President Bush's last one. All federal health care spending will increase from $285 billion in fiscal year 1993 to $318 billion in fiscal 1994 — and these totals do not include approximately $80 billion of tax expenditure for tax-deductible employee benefit payments.

Thus, health care spending increases [illegible] approximately 71 percent of all the [illegible]-to-year increases.

Without comprehensive health reform, spending for federal health programs will more than double in six years. According to the Congressional Budget Office, Medicare and Medicaid alone will grow from a combined total of $200 billion in 1992 to $405 billion in 1998.

Without comprehensive health reform, our economy will continue to add jobs slowly. Non-health care jobs in both the private and public sectors must shrink as health care consumes a larger and larger percentage of our Gross Domestic Product. Last year, a University of North Carolina study concluded that we lost two million jobs nationally in the last four years because of rising health care costs.

A University of North Carolina study concluded that we lost two million jobs nationally in the last four years because of rising health care costs.

Without comprehensive health care reform, we will continue to provide a perverse incentive to quit work and go on welfare. The growth of Medicaid rolls is actually surprisingly slow given the financial risk of non-insured or underinsured workers.

In addition to economic problems, our current health care system has created a number of ethical problems. Our health care system reduces us to computer numbers that determine our financial risk and decide our fate. If our number reveals a high ability to pay, we are given the finest health care in the world. If our number results in doubt, we may get care, but we may also wonder if it was worth the effort.

Increasingly, Americans are making career decisions based upon health care coverage. Millions of Americans are forced to obtain the security of health insurance from welfare and are told they will lose their benefits if they find work. Others are afraid to change jobs even at a higher salary, because they fear losing their health coverage. Or the system creates situations where government employment is more attractive than private sector jobs.

Americans who have paid all their working lives for health coverage discover their insurer will not cover the care they need. Even worse, after 20 years on the job, Americans receive pink slips and must face a new health care phenomenon during their job hunt: pre-existing medical conditions.

Small businesses — our greatest hope for new jobs — are particularly vulnerable in today's health care marketplace. They approach a shrinking number of insurers who offer coverage at rapidly rising rates. Today, the imbedded cost of health care is a larger barrier to economic expansion than taxes. Unlike taxes, health care costs continue to rise independent of income.

Outrages don't end with obtaining health insurance. Waste is endemic. We spend tens of billions of dollars on paperwork in an effort to find third-party payers and collect payments. Government-financed programs encourage unnecessary procedures. Bills for services rendered are shockingly out of proportion to the value of care received.

Strained doctor-patient relationships. Physicians practice in fear of costly malpractice suits, while patients lose confidence in their doctors' judgment. Both parties lose, while costs are driven up by unnecessary procedures.

Health care reform should be more than an effort to solve these problems. It should be part of an effort to construct a new American safety net that meets the changed needs of workers in the information age.

In the industrial age, a job very often lasted a lifetime. The most urgent social concern was the quality of life after retirement. Thus, the safety net provided protection for the two largest fears of the elderly, non-working population: income maintenance and health care.

In the information age, job security is a fading memory. Employers, struggling to maintain a competitive edge in an international marketplace, are either doing more work with the same number of employees or are employing temporary, contract help. Employees who do create new jobs often can no longer afford to offer benefits. Only 38 percent of all new jobs in America come with health care benefits; 15 percent provide pension benefits.

In the information age, workers must acquire health care eligibility as a consequence of being American, not as a consequence of

employment status. However, while I have broken the link between eligibility and employment, I still believe employers should play a role in health care. Health care can continue to be employment-based, and, in addition to making a financial contribution, employers can still make important decisions about health care.

I favor reform that declares every American — now free of the fear and doubt of not being covered — must have a stake in making payments and controlling costs. The good old days (for the fortunate few) of not having to worry about paying the bills because "someone else" is picking up the tab must end. I favor having Americans pay premiums into a state-based plan or purchasing cooperative. If economic incentives are not distorted by the tax code, well-intended politicians, or corporate executives, the market can help control costs.

I favor reform which emphasizes health rather than health care. By establishing research priorities, developing payment formulas, promulgating practice guidelines, assisting professional training, disseminating information on health care quality, and developing incentives throughout the tax system, government can ensure that public health becomes the primary focus of our health care system.

I favor creating a Health Care Prevention Account to be used for community-based efforts to improve the health of the American people.

I favor the creation of a national board to determine a standard set of benefits. The benefit package will be uniform across the country and will cover all Americans, including Members of Congress. Subsidies will be paid directly to the state purchasing cooperatives. Fee schedules and payment to providers will be determined by self-regulating negotiation between state-based payment corporations and providers, payers, and entrepreneurs who deliver and manage high-quality, low-cost care.

I favor national standards, benefits, and simplified reporing forms, but I do not favor federalizing the system. Medicaid would disappear. Medicare must be included in the system, and eligible veterans could choose between Veterans Administration hospitals or private hospitals for their care.

I favor a financing system which is direct and disciplined. As a first step and a foundation for any legislation, I propose that we establish a Federal Unitary Health Care Trust Fund, similar to the Social Security Trust Fund.

This Health Care Trust Fund would cover all federal spending for health services, including Medicare, Medicaid, VA, the Department of Defense health programs, and the Federal Employees Health Benefits Program. In addition, the trust fund would also cover the research and infrastructure investments funded through the National Institutes of Health, the Centers for Disease Control, and other public health service programs. Congress would be required to dedicate sufficient taxes to pay for all authorized or appropriated expenditures.

The Trust Fund provides three major benefits to the government. First, fiscal clarity is established. What the government is paying for and where the funds are coming from are made clear. Second, it forces a vigorous, open, and honest debate on appropriate financing sources. Third, it guarantees fiscal discipline because deficit financing would not be allowed for our most rapidly growing federal expenditure.

To illustrate how the system would work, I propose that the following current sources of existing revenue be dedicated to pay for the $285 billion of health care spending in the current fiscal year:

	In Billions of Dollars
Payroll Tax* (Medicare Part A)	$ 91.8
Insurance Premiums (Medicare Part B)	14.6
Existing Excise Tax: Tobacco	5.7
Existing Excise Tax: Alcohol	7.8
Individual Income Tax**	135.3
Corporate Income Tax**	29.7
Total	$284.9

* 2.9%

** 27% of total revenues collected

Next year, federal health care spending is estimated to reach $318 billion while these dedicated sources of revenue would grow to $308 billion. Thus, Congress would either have to cut $10 billion in spending or raise $10 billion through new taxes.

To show how the Health Trust Fund would encourage a vigorous and honest debate, I will illustrate an alternative financing scenario that I find attractive. I would enact a progressive consumption tax and increase taxes on tobacco by 70 cents per cigarette pack. These taxes would generate $120 billion and $10 billion, respectively.

I would allocate the entire amount to the Health Trust Fund, which would enable me to lower the existing health care payroll taxes (Medicare Part A) to zero, thereby relieving employers of a signifi-

I favor national standards, benefits, and simplified reporting forms, but I do not favor federalizing the system.

cant tax burden. I would also reduce allocated individual income taxes by $20 billion and cut the deficit by approximately $20 billion.

Economic and ethical concerns are driving the engine of health care reform. We have an opportunity to design a new financing system that controls costs while we continue to have the highest quality health care in the world. We have an opportunity to redesign this financing system so that Americans become healthier.

To do it right, we must insist that all accept their fair share or responsibility. Subsidies will sometimes be unavoidable. They should be the exception and not the rule.

To do it right, we should not try to fashion a coalition of interest groups who want to satisfy their important but narrow needs. To do it right, we must think about all Americans, now and in the future. To do it right will require vision and thoughtful, careful consideration of what we are doing. Most of all it will require the courage to enact legislation which is good, tough economic medicine and more compatible with our moral principles.

Sen. Bob Kerrey (D-Neb), a member of the Appropriations Committee, made health care reform a key plank in his platform during his run for the presidential nomination last year.

ATTACHMENT 7

SENATOR BOB KERREY (D-NE)

Senator Kerrey has displayed a keen interest in the area of health care reform since first coming to the Senate and made health reform one of the centerpieces of his presidential bid.

In the last Congress, he introduced a comprehensive health reform bill which is actually quite similar to the framework being developed by the Task Force. In the Kerrey bill, however, all businesses would be required to join state-run purchasing groups rather than privately-run groups. At his March 18th meeting with the First Lady, he was very complimentary about Ira's March 4 briefing for the Democratic Senators. In a note to Senator Rockefeller, Kerrey wrote that he "likes what he is hearing out of the White House."

He has made financing a primary focus and advocates creating a health care trust fund run on a pay as you go basis. Sources of financing for his bill include: a payroll tax on employers and employees; current federal health spending except for Veterans (for whom he believes a separate system must be maintained); new taxes on cigarettes and liquor; taxes on Social Security benefits; and increasing income subject to tax as well as increasing the top rate. At his last meeting with the First Lady he expressed interest in providing language to help sell the plan.

Recent Developments: - Senator Kerrey has recently circulated a proposal in the Senate to create a trust fund which would account for all health expenditures including the Federal Employee Health Benefit Package and NIH. He suggests proposing appropriate taxes designated for health care reform before the introduction of a comprehensive plan.

J. ROBERT KERREY
NEBRASKA

UNITED STATES SENATE
WASHINGTON, D. C.

Feb. 23, 1993

Dear Hillary,

I would like to personally invite you to keynote a health care conference on Friday, April 16, at noon, in Lincoln, Nebraska. The conference is co-hosted by Governor Nelson and I, and it is organized by the Columbia Institute.

We'd walk the plank together and I'll go first.

JK

February 24, 1993

Mrs. Hillary Rodham Clinton
President's Task Force on
National Health Care Reform
The White House
Old Executive Office Building
Washington, D.C. 20500

Dear Mrs. Clinton:

As you know, the health care crisis has become a top priority in our domestic agenda. With nearly 37 million Americans lacking health insurance and health care costs contributing significantly to our national deficit, it is obvious that the need for reform is urgent. In constructing a new health care program we must consider three often conflicting aspects of health care: affordability, accessibility, and quality.

Our citizens must be informed about all of our health reform options so that they may make solid decisions about which proposal they support. With this in mind, I, along with Governor E. Benjamin Nelson, have decided to convene and chair a forum on Friday, April 16 and Saturday, April 17, 1993 entitled "Health Care in the 21st Century: National Challenges, Nebraska Solutions." The conference will be held at the University of Nebraska in Lincoln. We feel this forum will provide our constituents an unsurpassed opportunity to learn more about our national health care options. I would like to extend to you an invitation to participate as the keynote speaker at this conference.

Your insight would prove invaluable to the over 350 business leaders, policy makers, educators, health care professionals, and consumers who will be attending the forum. We believe that your experience and expertise will provide the audience the information it needs to make informed decisions.

The day's agenda will cover a range of topics including the future of our health care system, policy options facing Congress, and the challenges facing Nebraska including some difficult value decisions. We hope during the conference not only to promote a better understanding of these issues, but also to solicit responses from the audience on the variety of reform initiatives which have been proposed. The recommendations of my constituents will surely prove beneficial to me as the Congress faces increasingly controversial health reform proposals in the coming months.

Your participation will help to ensure the success of this project, and I sincerely hope that you will be able to join us. Randi Footlick of the Columbia Institute will be in touch with you within the next few days to discuss the logistics involved in your participation. As always, I encourage you to call my office at (202) 224-6551 or Randi at (202) 547-2470 should you have any questions or comments.

I look forward to seeing you soon.

Sincerely,

J. ROBERT KERREY
United States Senate

Health Care in the 21st Century:
National Challenges, Nebraska Solutions

April 16-17, 1993
University of Nebraska - Lincoln, Nebraska

Senator Bob Kerrey, Chairman
Governor Benjamin Nelson, Co-Chair

DRAFT AGENDA

8:30 a.m. WELCOME AND INTRODUCTORY REMARKS

Senator Bob Kerrey, Chairman
Governor Benjamin Nelson, Co-Chair

SESSION I: NATIONAL PERSPECTIVE

9:00 a.m. SOCIAL VALUES VS. ECONOMIC NECESSITY

OPTIONS FOR REFORM

9:40 a.m. THE MARKET AND HEALTH REFORM

This presentation will examine how the market structure and existing competition may be used to control costs and deliver services to a greater number of individuals.

10:10 a.m. MANAGED COMPETITION

The principles of a "managed competition" model will be explored and an outline of how the system would work will be discussed.

10:40 a.m. COFFEE BREAK

10:50 a.m. ELEMENTS OF COST CONTROL

A speaker will discuss global budgeting, expenditure caps, and savings in the context of a market system. In addition, the need for portable coverage will be discussed as well as cost control measures and improved quality for vulnerable populations.

11:20 a.m.	QUESTIONS AND DISCUSSION
	Moderator: Senator Bob Kerrey, Chairman
	At this point, the program will open up and provide an opportunity for those in the audience to ask questions of all of the morning speakers and promote a thorough discussion of the issues.
12:00 p.m.	LUNCHEON
12:45 p.m.	LUNCHEON ADDRESS: A View From Washington
	A representative of the Clinton Administration will discuss the president's proposal for health care reform.
	Hillary Rodham Clinton (Invited) President's Task Force on National Health Care Reform

SESSION II: STATE PERSPECTIVE

1:30 p.m.	KEYNOTE PRESENTATION: A View From the State House
2:15 p.m.	STATES TAKING ACTION IN HEALTH CARE REFORM
	The viewpoints and experience of an legislator, administrator and policy maker will be examined in order to understand the feasibility of state reform.
3:15 p.m.	BREAK
3:30 p.m.	PANEL DISCUSSION
	The above speakers will have a chance to interact with one another and comment futher on their individual proposals.
4:00 p.m.	QUESTIONS AND DISCUSSION
5:00 p.m.	ADJOURNMENT

Saturday, April 17, 1993

8:00 a.m.	COFFEE AND DANISH
8:30 a.m.	WELCOME AND INTRODUCTORY REMARKS Governor Ben Nelson, Co-Chair
9:00 a.m.	KEYNOTE PRESENTATION State Senator Linda Berglin, Minnesota State Senate Chair, Health & Human Services Committee
9:45 a.m.	BREAK
10:00 a.m.	THE BLUE RIBBON COALITION Frank Barrett, Chair
10:30 a.m.	GOVERNOR'S INTERAGENCY COMMITTEE Mark Horton, M.D., Chair
10:45 a.m.	RESPONSE FROM LOCAL STAKEHOLDERS A panel representing health care experts, business leaders, consumers and others will respond to all of the preceding presentations and provide their own comments on each reform initiative. Moderator: Mary Dean Harvey, Director, Nebraska Department of Social Services *Physician Response *Provider Response *Business Response *Consumer Response *Insurance Response *Legislative Response
12:00 p.m.	CONCLUDING REMARKS AND ADJOURNMENT Senator Bob Kerrey, Chairman Governor Ben Nelson, Co-Chair

Health Care for the 21st Century: National Challenges, Nebraska Solutions

Senator J. Robert Kerrey, Chairman
Governor E. Benjamin Nelson, Co-Chair

Invited speakers include:

Hillary Rodham Clinton
Charles Bowsher, U.S. General Accounting Office
Robert Coles, Harvard University
E. Richard Brown, U.C.L.A. School of Public Health
Alain Enthoven, Stanford University
Paul Ellwood, Jackson Hole
Alice Rivlin, OMB
Charles Dougherty, Creighton University
Lynn Etheredge
Governor Howard Dean, Vermont
Governor Booth Gardner
Leonard Kirschner, Arizona Health Care Cost Containment System
State Senator Linda Berglin, Minnesota Senate
Henry Aaron, Brookings Institute

Health Care in the 21st Century:
National Challenges, Nebraska Solutions

April 16-17, 1993
University of Nebraska - Lincoln, Nebraska

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Charles Dougherty, Creighton University
Lynn Etheredge
Governor Howard Dean, Vermont
Governor Booth Gardner
Leonard Kirschner, Arizona Health Care Cost Containment System
State Senator Linda Berglin, Minnesota Senate
Henry Aaron, Brookings Institute

COPY

ATTACHMENT 4

J. ROBERT KERREY
NEBRASKA

United States Senate

WASHINGTON, DC 20510-2704

May 5, 1993

Mrs. Hillary Rodham Clinton
The White House
Washington, D.C. 20500

Dear Hillary:

Enclosed please find materials on a proposal for a National Unitary Health Care Trust Fund which we have previously discussed. The use of a trust fund to account for federal health care expenditures has many advantages, including providing a foundation for an honest argument about the need for fully-funded comprehensive health care reform.

I see three benefits of this unitary trust fund:

1. Assuming the trust fund is set up on a "pay as you go" basis, it will force needed fiscal discipline on the health care system by fully accounting for federal health care expenditures. Currently federal health care expenditures are the fastest growing area of the federal budget. From FY93 to FY94 alone, federal health expenditures will increase by $34 billion.

2. It allows us to present an invoice to the American public on the share of health expenditures currently funded by the government. This will refute the weak arguments of opponents of health care reform that we do not want a health care system that includes large federal government involvement. We already have such a system. This year the federal government will expend $284 billion on direct health care services as well as another $80 billion indirectly through the tax system. The government pays nearly 40% of all health expenditures in the United States.

3. It sets the stage for debate on which taxes to use to pay for health care. Opponents of health care reform are already accusing President Clinton of supporting a tax increase for health care. Americans need to see that taxes are already being collected and

spent on health care.

In discussing the idea of a federal health care trust fund with advocates for health care reform, I spoke with Henry Aaron of the Brookings Institute. By a fortunate coincidence, it turns out that Mr. Aaron has advocated for several years the establishment of such a trust fund. He discusses the trust fund idea in his book, *Serious and Unstable Condition: Financing America's Health Care*, Brookings 1991. He states that, "Because health care expenditures are large and certain to keep growing, it would be sound budgetary procedure to....finance federal expenditures on health care through a trust fund, like those now used for social security pensions and medicare hospital benefits " (pp. 146-47). I have attached a letter Mr. Aaron sent me subsequent to our meeting.

The attached charts illustrate how the trust fund would work. First, all federal health care expenditures must be part of the fund, including money spent on, *inter alia*, FEHB and NIH. At this point I have not proposed including the indirect expenditures made through the current tax system, which total approximately $80 billion for FY93 in the trust fund because uncollected taxes are not part of the budget process.

In Year 1, the current fiscal year, federal health expenditures will total $284.3 billion. I have designated five sources of revenue to pay for these expenditures:

1. The 2.90% payroll tax equally divided between employers and employees (currently designated for Medicare Part A);

2. Health insurance premiums (collected for Medicare Part B);

3. All excise taxes for cigarettes and alcohol;

4. Individual income taxes, the first 27% of taxes collected or approximately the first 6% of individual taxable income; and

5. Corporate income taxes, the first 27% of taxes collected.

Table 2 illustrates how Year 2, FY94, of the trust fund would work. Direct federal expenditures are projected to grow by $34.2 billion to $318.5 billion. However, designating the same revenue sources in FY94 as

FY93 will produce only $308 billion. Therefore, in Year 2, there will already be a shortfall of approximately $10 billion. In order to keep the fund in balance, at that time, either spending must be cut or additional taxes must be designated or raised to cover the shortfall.

Let me demonstrate how the trust fund would encourage a vigorous and honest debate about appropriate taxes to use for health care expenditures. For example, another alternative scenario for designating taxes for the trust fund which I find attractive, would be to use the following taxes in FY94:

1. Health insurance premiums	$ 14.6 billion
2. Progressive consumption tax	$120.0 billion
3. Tobacco Excise Taxes (includes $0.70 increase per pack)	$ 15.9 billion
4. Alcohol Excise Taxes	$ 7.7 billion
5. Corporate Income Taxes	$ 32.4 billion
6. Individual Income Taxes	$127.9 billion
TOTAL	$318.5 billion

This scheme could be criticized because I am supporting new taxes for health care. However, my argument is that I am eliminating a 3% payroll tax which relieves the burden on employers as well as reducing allocated individual income tax.

There are many possible alternatives for designating the taxes needed to cover federal health expenditures besides the ones I have discussed here. Under all these scenarios, however, the trust fund gives us an opportunity to debate different ways to pay the federal share of health expenditures. It is worth noting that Henry Aaron proposes that the federal trust fund capture amounts currently expended by the states for Medicaid. *Serious and Unstable Condition*, p.p. 146-47. Others have advocated state and federal swaps of program responsibilities, i.e. Medicaid for AFDC. These proposals open the door for welfare reform.

A proposal on the appropriate taxes to designate for health care expenditures should be presented to the American public before the introduction of a comprehensive reform proposal. The federal trust fund concept will lay the groundwork for the financing debate we will need with a new reform proposal. The trust fund alone cannot prevent cost

shifting as a way of lowering federal health expenditures. However, public awareness of increases in federal health care cost will impose some discipline on the entire health care system. If, like the social security trust fund, we account for and monitor federal health expenditures, the American public will be a larger and more vocal participant in the health care system. In conjunction with the forthcoming comprehensive reform, the trust fund will begin to solve our nation's health care crisis.

Legislative Counsel is redrafting the bill; it should be done soon. I look forward to discussing this proposal with you and appreciate your interest.

Sincerely,

J. Robert Kerrey

Table 1. *Proposed Health Care Fund*, FY93

DRAFT

Fiscal Year 1993

Expenditures (in billions)		**Revenues** (in billions)	
		Current Earmarked Revenues	
Medicare	$149.2	Medicare:	
Medicaid	80.3	Payroll Tax	91.8
Veterans	14.9	Premiums	14.6
Dept. of Defense	15.0		
Other **	24.9	*Additional Revenues*	
		Excise:	
		Tobacco	5.7
		Alcohol	7.8
		Income:*	
		Corporate	29.7
		Individual	135.3
Total	$284.3	Total	$284.9

* 27% of Corporate and Individual Income Taxes Collected (or approximately the first 6% of individual taxable income)

** Other includes Public Health Service, Other HHS and FEHB

Source: CBO Projections, February 1993

DRAFT

Table 2, *Proposed Health Care Trust Fund*, FY94

Fiscal Year 1994

Expenditures (in billions)		**Revenues** (in billions)	
		Current Earmarked Revenues	
Medicare	$169.7	Medicare:	
Medicaid	91.9	Payroll Tax	102.3
Veterans	15.7	Premiums	16.8
Dept. of Defense	15.0		
Other**	26.2	*Additional Revenues*	
		Excise:	
		Tobacco	5.9
		Alcohol	7.7
		Income:***	
		Corporate	32.4
		Individual	143.4
Total	$318.5	Total	$308.5

* Dept. of Defense projection unavailable, 1993 estimate used

** Other includes Public Health Service, Other HHS and FEHB

*** 27% of Corporate and Individual Income Taxes Collected (or approximately 6% if individual taxable income.)

Source: CBO Projections, February 1993

ATTACHMENT 5

THE BROOKINGS INSTITUTION

1775 MASSACHUSETTS AVENUE, N.W. WASHINGTON, D.C. 20036-2188 11:09
TELEPHONE: 202/797-6000 FAX: 202/797-6181

Economic Studies Program

30 March 1993

Senator Bob Kerrey
United States Senate
Washington, DC 20510

Dear Senator Kerrey:

Thank you for the opportunity to discuss federal spending on social security and medical programs last week.

I was particularly intrigued with your proposal to establish a trust fund that would be used to pay for essentially all federal health care programs and which would receive earmarked taxes designated to pay for those programs. If spending grew faster than taxes, Congress would be required under your proposal to allocate additional revenues to the trust fund.

This proposal is quite similar to one that I advanced in a book on health care financing, *Serious and Unstable Condition: Financing Americas' Health Care*, Brookings, 1991, on pages 137 to 151 and suggested again by Charles Schultze in our co-edited book *Setting Domestic Priorities: What Can Government Do?*, Brookings, 1992, pp. 310 to 314. Our framework is identical to the one you sketch, with one exception that may be significant.

We propose earmarking a specially dedicated tax to the trust fund (together with the payroll tax for medicare, SMI premiums, and revenues from the "sin" taxes). Should spending grow faster than revenues, tax rates on the earmarked taxes would have to be increased. Charles Schultze and I are persuaded that the need to raise taxes if spending on health care grows rapidly will put the question of how much the nation is prepared to spend on health care squarely before the American people and its elected representatives. The need to raise taxes will limit any possible Congressional tendency to want to sweeten benefits.

Earmarking a part of the personal income tax would serve this function quite well *provided that* Congress treated any increase in the proportion of the tax allocated to the trust fund as forcing an increase in personal income tax rates. However, we know of no procedural device that could bind future Congresses to link changes in the share of income taxes designated to the trust fund to changes in income tax rates. For this reason, I think that use of a special tax, all of the revenue from which was allocated to the health care trust fund, is preferable. A value-added tax is the only revenue

instrument capable of generating sufficient revenues to pay for the bulk of federal health care programs.

Both Democrats and Republicans should be able to find in your proposal a way to help pay for current health care obligations and for financing reform. It can help discipline government spending. It can help reduce the overall deficit. I wish you the best of fortune in persuading your colleague in the Senate and members of the House of Representatives to support your initiative.

Sincerely yours

Henry J. Aaron
Director

Health Care Reform: It's a Necessity For Both Ethical and Economic Reasons

By Sen. Bob Kerrey

Enacting comprehensive health care reform is not an option; it is a necessity. Rising federal costs and a lengthening list of avoidable tragedies dictate that we act. We may [illegible] but economics and ethics [illegible] for long.

Without comprehensive health reform, deficit reduction will remain a dream. President Clinton's first budget is 3.2 percent larger than President Bush's last one. All federal health care spending will increase from $285 billion in fiscal year 1993 to $318 billion in fiscal 1994 — and these totals do not include approximately $80 billion of tax expenditure for tax-deductible employee benefit payments.

Thus, health care spending increases would approximately 71 percent of all the year-to-year increases.

Without comprehensive health reform, spending for federal health programs will more than double in six years. According to the Congressional Budget Office, Medicare and Medicaid alone will grow from a combined total of $200 billion in 1992 to $[illegible] billion in 1998.

Without comprehensive health reform, our economy will continue to add jobs slowly. Non-health care jobs in both the private and public sectors must shrink as health care consumes a larger and larger percentage of our Gross Domestic Product. Last year, a University of North Carolina study concluded that we lost two million jobs nationally in the last four years because of rising health care costs.

A University of North Carolina study concluded that we lost two million jobs nationally in the last four years because of rising health care costs.

Without comprehensive health care reform, we will continue to provide a perverse incentive to quit work and go on welfare. The growth of Medicaid rolls is actually surprisingly slow given the financial risk of non-insured or underinsured workers.

In addition to economic problems, our current health care system has created a number of ethical problems. Our health care system reduces us to computer numbers that determine our financial risk and decide our fate. If our number reveals a high ability to pay, we are given the finest health care in the world. If our number results in doubt, we may get care, but we may also wonder if it was worth the effort.

Increasingly, Americans are making career decisions based upon health care coverage. Millions of Americans are forced to obtain the security of health insurance from welfare and are told they will lose their benefits if they find work. Others are afraid to change jobs even at a higher salary, because they fear losing their health coverage. Or the system creates situations where government employment is more attractive than private sector jobs.

Americans who have paid all their working lives for health coverage discover their insurer will not cover the care they need. Even worse, after 20 years on the job, Americans receive pink slips and must face a new health care phenomenon during their job hunt: pre-existing medical conditions.

Small businesses — our greatest hope for new jobs — are particularly vulnerable in today's health care marketplace. They approach a shrinking number of insurers who offer coverage at rapidly rising rates. Today, the imbedded cost of health care is a larger barrier to economic expansion than taxes. Unlike taxes, health care costs continue to rise independent of income.

Outrages don't end with obtaining health insurance. Waste is endemic. We spend tens of billions of dollars on paperwork in an effort to find third-party payers and collect payments. Government-financed programs encourage unnecessary procedures. Bills for services rendered are shockingly out of proportion to the value of [illegible]

strained doctor-patient relationships. Physicians practice in fear of costly malpractice suits, while patients lose confidence in their doctors' judgment. Both parties lose, while costs are driven up by unnecessary procedures.

Health care reform should be more than an effort to solve these problems. It should be part of an effort to construct a new American safety net that meets the changed needs of workers in the information age.

In the industrial age, a job very often lasted a lifetime. The most urgent social concern was the quality of life after retirement. Thus, the safety net provided protection for the two largest fears of the elderly, non-working population: income maintenance and health care.

In the information age, job security is a fading memory. Employers, struggling to maintain a competitive edge in an international marketplace, are either doing more work with the same number of employees or are employing temporary, contract help. Employees who do create new jobs often can no longer afford to offer benefits. Only 38 percent of all new jobs in America come with health care benefits; 15 percent provide pension benefits.

In the information age, workers must acquire health care eligibility as a consequence of being American, not as a consequence of

employment status. However, while I have broken the link between eligibility and employment, I still believe employers should play a role in health care. Health care can continue to be employment-based, and, in addition to making a financial contribution, employers can still make important decisions about health care.

I favor reform that declares every American — now free of the fear and doubt of not being covered — must have a stake in making payments and controlling costs. The good old days (for the fortunate few) of not having to worry about paying the bills because "someone else" is picking up the tab must end. I favor having Americans pay premiums into a state-based plan or purchasing cooperative. If economic incentives are not distorted by the tax code, well-intended politicians, or corporate executives, the market can help control costs.

I favor reform which emphasizes health rather than health care. By establishing research priorities, developing payment formulas, promulgating practice guidelines, assisting professional training, disseminating information on health care quality, and developing incentives throughout the tax system, government can ensure that public health becomes the primary focus of our health care system.

I favor creating a Health Care Prevention Account to be used for community-based efforts to improve the health of the American people.

I favor the creation of a national board to determine a standard set of benefits. The benefit package will be uniform across the country and will cover all Americans, including Members of Congress. Subsidies will be paid directly to the state purchasing cooperatives. Fee schedules and payment to providers will be determined by self-regulating negotiation between state-based payment corporations and providers, payers, and entrepreneurs who deliver and manage high-quality, low-cost care.

I favor national standards, benefits, and simplified reporting forms, but I do not favor federalizing the system. Medicaid would disappear. Medicare must be included in the system, and eligible veterans could choose between Veterans Administration hospitals or private hospitals for their care.

I favor a financing system which is direct and disciplined. As a first step and a foundation for any legislation, I propose that we establish a Federal Unitary Health Care Trust Fund, similar to the Social Security Trust Fund.

This Health Care Trust Fund would cover all federal spending for health services, including Medicare, Medicaid, VA, the Department of Defense health programs, and the Federal Employees Health Benefits Program. In addition, the trust fund would also cover the research and infrastructure investments funded through the National Institutes of Health, the Centers for Disease Control, and other public health service programs. Congress would be required to dedicate sufficient taxes to pay for all authorized or appropriated expenditures.

The Trust Fund provides three major benefits to the government. First, fiscal clarity is established. What the government is paying for and where the funds are coming from are made clear. Second, it forces a vigorous, open, and honest debate on appropriate financing sources. Third, it guarantees fiscal discipline because deficit financing would not be allowed for our most rapidly growing federal expenditure.

To illustrate how the system would work, I propose that the following current sources of existing revenue be dedicated to pay for the $285 billion of health care spending in the current fiscal year:

	In Billions of Dollars
Payroll Tax* (Medicare Part A)	$91.8
Insurance Premiums (Medicare Part B)	14.6
Existing Excise Tax: Tobacco	5.7
Existing Excise Tax: Alcohol	7.8
Individual Income Tax**	135.3
Corporate Income Tax**	29.7
Total	$284.9

* 2.9%

** 27% of total revenues collected

Next year, federal health care spending is estimated to reach $318 billion while these dedicated sources of revenue would grow to $308 billion. Thus, Congress would either have to cut $10 billion in spending or raise $10 billion through new taxes.

To show how the Health Trust Fund would encourage a vigorous and honest debate, I will illustrate an alternative financing scenario that I find attractive. I would enact a progressive consumption tax and increase taxes on tobacco by 70 cents per cigarette pack. These taxes would generate $120 billion and $10 billion, respectively.

I would allocate the entire amount to the Health Trust Fund, which would enable me to lower the existing health care payroll taxes (Medicare Part A) to zero, thereby relieving employers of a signifi-

I favor national standards, benefits, and simplified reporting forms, but I do not favor federalizing the system.

cant tax burden. I would also reduce allocated individual income taxes by $20 billion and cut the deficit by approximately $20 billion.

Economic and ethical concerns are driving the engine of health care reform. We have an opportunity to design a new financing system that controls costs while we continue to have the highest quality health care in the world. We have an opportunity to redesign this financing system so that Americans become healthier.

To do it right, we must insist that all accept their fair share or responsibility. Subsidies will sometimes be unavoidable. They should be the exception and not the rule.

To do it right, we should not try to fashion a coalition of interest groups who want to satisfy their important but narrow needs. To do it right, we must think about all Americans, now and in the future. To do it right will require vision and thoughtful, careful consideration of what we are doing. Most of all it will require the courage to enact legislation which is good, tough economic medicine and more compatible with our moral principles.

Sen. Bob Kerrey (D-Neb), a member of the Appropriations Committee, made health care reform a key plank in his platform during his run for the presidential nomination last year.

ATTACHMENT 7

SENATOR BOB KERREY (D-NE)

Senator Kerrey has displayed a keen interest in the area of health care reform since first coming to the Senate and made health reform one of the centerpieces of his presidential bid.

In the last Congress, he introduced a comprehensive health reform bill which is actually quite similar to the framework being developed by the Task Force. In the Kerrey bill, however, all businesses would be required to join state-run purchasing groups rather than privately-run groups. At his March 18th meeting with the First Lady, he was very complimentary about Ira's March 4 briefing for the Democratic Senators. In a note to Senator Rockefeller, Kerrey wrote that he "likes what he is hearing out of the White House."

He has made financing a primary focus and advocates creating a health care trust fund run on a pay as you go basis. Sources of financing for his bill include: a payroll tax on employers and employees; current federal health spending except for Veterans (for whom he believes a separate system must be maintained); new taxes on cigarettes and liquor; taxes on Social Security benefits; and increasing income subject to tax as well as increasing the top rate. At his last meeting with the First Lady he expressed interest in providing language to help sell the plan.

Recent Developments: - Senator Kerrey has recently circulated a proposal in the Senate to create a trust fund which would account for all health expenditures including the Federal Employee Health Benefit Package and NIH. He suggests proposing appropriate taxes designated for health care reform before the introduction of a comprehensive plan.