

**PRESIDENT BUSH'S PROPOSED FISCAL
YEAR 1991 BUDGET FOR AGING PROGRAMS**

AN INFORMATION PAPER

PREPARED FOR USE BY THE

**SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE**



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PREFACE

This information paper, prepared by the staff of the U.S. Senate Special Committee on Aging, analyzes the full range of fiscal year 1991 budget proposals affecting older Americans. It outlines President Bush's proposed budget, regulatory initiatives, and legislative reforms for aging programs for the coming fiscal year. Included are the proposed budgets for Medicare and Medicaid; income and retirement programs; veterans' benefits; health and social service programs; and education, training, and research programs.

In each program area, the proposed spending and revenue levels for fiscal year 1991 through fiscal year 1993 in the Bush budget are analyzed against current service projections, as measured by the Office of Management and Budget and the Congressional Budget Office, where available.¹

DAVID PRYOR,
Chairman.

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Ranking Minority Member.

(III)

¹ Throughout this document, "n/a" denotes that the figure is not available. Budget authority figures are used for discretionary programs, while outlay numbers are used for entitlement programs.

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SECTION I—BUDGET OVERVIEW

According to the Congressional Budget Office (CBO), the Bush budget would produce a total fiscal year 1991 spending level of \$1.277 trillion in outlays and \$1.146 trillion in receipts for a total deficit of \$131 billion. Under CBO's projections, the President's budget plan would not meet the \$64 billion deficit target required by the Gramm-Rudman-Hollings budget deficit law (P.L. 99-177) in the coming fiscal year.

In contrast, the Office of Management and Budget (OMB) concludes that the deficit under the Bush budget would be \$900 million below the mandatory deficit target and \$10.9 billion below the deficit threshold (\$74 billion) that would trigger automatic sequestration. Because the Gramm-Rudman-Hollings law relies on OMB-based deficit projections, sequestration would not be triggered.

The large difference between these deficit estimates arises largely because OMB uses more optimistic economic assumptions than does CBO. In addition, OMB's deficit projections do not reflect the very sizable needs of the newly established Resolution Trust Corporation.

Following accounting rules set out in the Gramm-Rudman-Hollings law, both CBO and OMB deficit calculations include the Social Security trust funds. The trust funds, which are running a large and ever-growing surplus, thus continue to offset an increasing share of the Federal budget deficit.

OVERALL BUDGET

(By fiscal years; in billions of dollars)

| | Estimated | | | |
|-------------------------------------|-----------|--------------|--------|--------|
| | 1990 | 1991 | 1992 | 1993 |
| Proposed receipts: | | | | |
| OMB..... | 1,074 | 1,170 | 1,246 | 1,328 |
| CBO..... | 1,068 | 1,146 | 1,208 | 1,276 |
| Proposed spending: | | | | |
| OMB..... | -1,197 | -1,233 | -1,271 | -1,322 |
| CBO..... | -1,226 | -1,277 | -1,292 | -1,355 |
| Deficit w/SSTF ¹: | | | | |
| OMB..... | -124 | -63 | -25 | -6 |
| CBO..... | -158 | -131 | -84 | -79 |
| Gramm-Rudman-Hollings targets..... | -100 | -64 | -28 | 0 |

¹ Social Security trust funds.

BUDGET DEFICIT WITH AND WITHOUT SOCIAL SECURITY

[By fiscal years; in billions of dollars]

| | Estimated | | | |
|------------------------------------|-----------|------|------|------|
| | 1990 | 1991 | 1992 | 1993 |
| Deficit (w/SSTF ¹): | | | | |
| OMB..... | -124 | -63 | -25 | 6 |
| CBO..... | -158 | -131 | -84 | -79 |
| Deficit (w/o SSTF): | | | | |
| OMB..... | -186 | -143 | -118 | -101 |
| CBO..... | -223 | -207 | -172 | -177 |
| Gramm-Rudman-Hollings targets..... | -100 | -64 | -28 | 0 |

¹ Social Security trust funds.

SECTION II—HIGHLIGHTS OF BUDGET PROPOSALS AFFECTING AGING PROGRAMS

Many of the President's initiatives for aging programs have been proposed by the former administration and rejected by the Congress. Other Bush proposals are extensions of savings and revenue initiatives which have already been enacted into law. Major cuts are targeted at Medicare (\$5.2 billion), housing (\$210 million), low-income home energy assistance (\$264 million), Senior Community Service Employment (Title V of the Older Americans Act, at \$29 million), Community Services Block Grant program (\$363 million), and civil, military, and railroad retirement benefits (\$2.1 billion).

Previous proposals: Reductions in payments to Medicare providers (i.e., extensions and deeper cuts in provider payments along the same lines as the Omnibus Budget Reconciliation Act of 1987); extension of Hospital Insurance (HI) payroll tax (and Medicare coverage) to all State and local employees; cuts in medical education, housing, the energy assistance program; the elimination of selected health, social service, legal aid, professional training, and housing programs; and the elimination of the Federal retiree lump-sum pension option and a 1-year freeze, followed by a reduction, of the COLA for Federal civil and military retirees.

New proposals: Incentives to enroll Medicare and Medicaid beneficiaries in managed-care programs; and, establishment of a family saving account plan to promote savings and long-term economic growth.

BUSH BUDGET: FISCAL YEAR 1991—MARCH 1990 CBO ESTIMATES

[In billions of dollars]

| Program | Request | Current services | Difference |
|--|---------|------------------|------------|
| Medicare | 111.6 | 116.8 | - 5.2 |
| Part A (HI) | 64.5 | 67.5 | - 3.0 |
| Part B (SMI) | 47.2 | 49.3 | - 2.1 |
| Reduce funding for Part A Capital, Indirect Medical Education, and PPS updates and Part B non-primary care physicians and overprices procedures. | | | |
| Medicaid | 45.4 | 45.1 | - .30 |
| Increase spending by 12 percent over fiscal year 1990 allocations. Enhance match for States that enroll Medicaid recipients in managed care, and beginning in 1992, reduce payments for States that continue to use traditional fee-for-service. | | | |

BUSH BUDGET: FISCAL YEAR 1991—MARCH 1990 CBO ESTIMATES

(In millions of dollars)

| Program | Request | Current services | Difference |
|--|---------|------------------|------------|
| Veterans health..... | 12,579 | 12,160 | 419 |
| Increase pay for health professionals. Require co-payments for VA outpatient visits, prescription drugs, and cost recovery for treatment of nonservice-connected disabilities from service-connected veterans who have health insurance (savings of \$112 million). | | | |
| NIH..... | 7,930 | 7,900 | 30 |
| NIA..... | 249 | 250 | -1 |
| Increase the NIH budget by \$354 million above the 1990 level. Increase NIA budget by \$9.4 million. Reduce number of new NIA grants (194 in 1989, 156 in 1990, and 153 in 1991). Direct 30 percent of grants for Alzheimer's research. | | | |
| HRSA..... | 1,587 | 1,838 | -251 |
| Reduce grants for health care students, with the exception of minority programs which are expanded. | | | |
| Social Security..... | 265,800 | 265,800 | 0 |
| No major benefits change. Raise \$2.3 billion in fiscal year 1991 by extending Social Security coverage to all State and local workers who are not covered under a different pension system and for District of Columbia employees hired after Jan. 1, 1991. | | | |
| SSI..... | 14,632 | 14,447 | 185 |
| Raise \$55 million in fiscal year 1991 by charging States a fee for the administration of their SSI program (18 States affected). Also "paper" increase of \$255 million in fiscal year 1991 as a result of accounting change. | | | |
| Railroad retirement..... | 4,372 | 4,435 | -63 |
| Privatize railroad retirement, eliminate tier II COLA in fiscal year 1991 and change tier II COLA formula thereafter to a CPI less 1 percent formula. Also finance 25 percent of Federal windfall through the rail pension trust fund (estimated savings of \$80 million). | | | |
| Federal civilian and military retirement: | | | |
| Civilian..... | 31,905 | 33,996 | -2,091 |
| Military..... | 22,335 | 22,976 | -641 |
| Eliminate fiscal year 1991 COLA for Federal civilian and military retirees and reduce thereafter the COLA to CPI less 1 percent formula. Civil service retirees can no longer remove their contributions as a lump sum. | | | |
| Veterans compensation, pensions, and burial benefits: | | | |
| Pensions..... | 3,847 | 3,877 | -30 |
| Compensation..... | 11,796 | 11,934 | -138 |
| Burial..... | 140 | 140 | 0 |
| Make COLA automatic instead of annually legislating COLA. Assumes a January 1991 COLA of 3.9 percent. Save \$171 million by placing a limit on estates of mentally incompetent veterans. | | | |
| Pension benefits: | | | |
| PGBC..... | 264 | 264 | 0 |
| PWBA..... | 90 | 77 | 13 |
| No major changes for the Pension Benefit Guaranty Corporation (PBGC). Increase funding to Pension Welfare and Benefits Administration for more pension enforcement and protection activities. | | | |
| Older Americans Act..... | 748 | 779 | -31 |
| Reduce funding for title III programs (community-based services) by 4 percent and title VI (Native American grants) by 3.7 percent. | | | |
| Community services: | | | |
| Senior Employment (title V of OAA)..... | 343 | 372 | -29 |
| CSBG..... | 0.042 | 412 | -363 |
| SSBG..... | 2,802 | 2,988 | -188 |

Cut fiscal year 1991 funding for senior employment by \$29 million and freeze thereafter. Eliminate Community Services Block Grants (except for a homeless program). Increase funding for Social Services Block Grants, but far short of the amount necessary to offset CSBG cuts.

BUSH BUDGET: FISCAL YEAR 1991—MARCH 1990 CBO ESTIMATES—Continued

(In millions of dollars)

| Program | Request | Current services | Difference |
|---|---------|------------------|------------|
| ACTION volunteers..... | 121 | 123 | -2 |
| Increase stipend for Foster Grandparents from \$2.15 to \$2.35 per hour and maintain total service hours. | | | |
| Housing/energy assistance: | | | |
| Section 202 | 220 | 430 | -210 |
| CHSP | 0 | 6.3 | -6.3 |
| LIHEAP | 1,100 | 1,463 | -363 |

Reduce sharply section 202 elderly housing (from 8,368 units in fiscal year 1990 to 3,967 units in fiscal year 1991). Fund 3,000 units of leased housing. Eliminate Congregate Housing Services Program. Continue multi-year cuts of Low-Income Home Energy Assistance Program (from a fiscal year 1985 funding level of \$2.1 billion to a fiscal year 1991 funding level of \$1.1 billion).

Tax expenditures in aging-related areas.

No major tax change in allowable deductions for health, housing credit, income security, and support for the aged and the blind. Tax deductions provided by the Government for pensions (\$57 billion in 1989) represents the single largest tax expenditure of the Government. The third largest Government expenditure goes to employer contributions for medical insurance premiums and medical care (\$32.4 billion in 1989).

New tax proposals in aging-related areas.

Increase savings and long-term investment by instituting a family savings account plan and enhancing IRAs. Allow employers to use a limited amount of pension fund assets to pay for retiree health costs. Make permanent the 25 percent tax deduction provided to self-employed persons for the cost of health insurance costs.

¹ OMB number.

SECTION III—DETAILED PROGRAM ANALYSIS

HEALTH

MEDICARE

(By fiscal years; in billions of dollars)

| | Actual 1989 | Estimated | | | |
|-------------------------------------|----------------|-----------|--------------|-------|-------|
| | | 1990 | 1991 | 1992 | 1993 |
| Outlays: ¹ | | | | | |
| Medicare part A (HI): | | | | | |
| OMB: | | | | | |
| Current services | 57.4 | 62.8 | 62.3 | 68.8 | 75.1 |
| Bush budget | | | 59.0 | 64.6 | 70.6 |
| Proposed savings | | | -3.3 | -4.2 | -4.5 |
| CBO: | | | | | |
| Current services | 58.2 | 63.9 | 67.5 | 75.5 | 83.2 |
| Bush budget | | | 64.5 | 71.7 | 79.0 |
| Proposed savings | | | -3.0 | -3.8 | -4.2 |
| Medicare part B (SMI): | | | | | |
| OMB: | | | | | |
| Current services | 36.9 | 43.1 | 45.8 | 52.0 | 59.2 |
| Bush budget | | | 43.8 | 48.2 | 59.3 |
| Proposed savings | | | -2.0 | -3.8 | -5.3 |
| CBO: | | | | | |
| Current services | 38.2 | 43.4 | 49.3 | 57.1 | 65.2 |
| Bush budget | | | 47.2 | 53.4 | 59.9 |
| Proposed savings | | | -2.1 | -3.7 | -5.3 |
| Total: | | | | | |
| OMB: | | | | | |
| Current services | 94.3 | 105.9 | 108.1 | 120.8 | 134.3 |
| Bush budget | | | 102.7 | 112.9 | 124.4 |
| Proposed savings ² | | | -5.4 | -7.9 | -9.9 |
| CBO: | | | | | |
| Current services | 96.4 | 107.3 | 116.8 | 132.6 | 148.4 |
| Bush budget | | | 111.6 | 125.1 | 138.9 |
| Proposed savings | | | -5.2 | -7.5 | -9.5 |

¹ Outlays equals spending for parts A and B; beneficiary premiums have not been deducted.

² Total proposed savings includes savings from proposals directed at part A, part B, and those affecting both parts A and B.

ANALYSIS—MEDICARE BUDGET

The Bush budget proposal for Medicare calls for reduced outlays and increased premiums by a total of \$5.4 billion (\$5.2 billion, according to CBO, numbers in parentheses calculated by CBO). The cuts are aimed primarily at providers, with \$3.4 billion (\$3 billion, according to CBO) directed at hospitals, and \$2.2 billion (\$2.1 billion, according to CBO) in payment reductions and premium

changes under Part B. The President has also proposed to mandate that State and local employees not participating in Medicare do so, which the administration estimates will generate revenue of \$1.9 billion in fiscal year 1991.

Savings Proposals: Of the proposed \$5.4 billion in program savings, \$3.4 billion, or 61 percent, are from cuts in Part A and \$2.2 billion, or 39 percent, are from Part B. Over 95 percent of the savings in Part A stem from legislative proposals that would reduce reimbursement of capital expenses; reduce the indirect medical education (IME) allowance; and reduce the payment update to hospitals under the prospective payment system (PPS). Part B savings are achieved largely (80 percent) by freezing payments to nonprimary care physicians; reducing payments for overvalued services and localities; and reducing hospital outpatient department payments, as well as capital costs for these departments. The proposal changes are similar to those in the fiscal year 1990 budget.

Spending Proposals: The budget calls for spending \$180 million (\$190 million, according to CBO) in fiscal year 1991 to increase the capitation rate paid to HMOs for Medicare beneficiaries from 95 percent to 100 percent of the adjusted average per capita cost (AAPCC).

Revenue Proposals: Similar to the prior 2 years, the President's budget proposes to extend the Hospital Insurance (HI) tax to all State and local employees. This would generate an estimated \$1.9 billion in revenues during fiscal year 1991. In addition, the administration proposes to establish a permanent floor in the Supplementary Medical Insurance (SMI) premium at the level needed to finance 25 percent of the Part B program, estimated by both OMB and CBO to be budget neutral in fiscal year 1991.

I. PROPOSED REDUCTIONS FOR PARTS A AND B

A *PPS Updates*

Savings in fiscal year 1991—

OMB: \$640 million

CBO: \$590 million

Set PPS update at market basket inflation rate minus 1.5 percent for all hospitals. This would result in a 4.1 percent increase in hospital payment rates for all hospitals. No differential is provided for the four categories of hospitals recognized under current law (i.e., PPS exempt, large urban, urban, and rural).

A *Capital Costs*

Savings in fiscal year 1991—

OMB: \$1.53 billion

CBO: \$1.32 billion

Maintain the 85 percent reimbursement rate for capital costs for rural hospitals and reduce the capital cost reimbursement rate for urban hospitals to 75 percent. Under current law, reimbursement of hospital capital expenditures is scheduled at 85 percent from January 1, 1990 through September 30, 1990; after fiscal year 1990, capital cost returns to 100 percent. (Beginning in fiscal year 1992, capital payments will be folded into the prospective payment rates.)

A *Indirect Medical Education*

Savings in fiscal year 1991—

OMB: \$1.03 billion

CBO: \$1.03 billion.

Reduce IME allowance from 7.7 percent to 4.05 percent. The Prospective Payment Assessment Commission (ProPAC) recently recommended an IME factor of 6.8 percent (compared with 5.09 percent recommended previously by the General Accounting Office). The study on which the ProPAC recommendation was based found that under current payment structures the IME factor could be as low as 3.2 percent, but for many reasons it would not be appropriate to set the factor at such a low level.

A *SNF Return on Equity*

Savings in fiscal year 1991—

OMB: \$70 million

CBO: \$35 million

Eliminate the return on equity (ROE) as part of the formula for reimbursing proprietary skilled nursing facilities (SNFs). SNFs are the only category of provider for which Medicare currently pays ROE.

A/B *Graduate Medical Education*

Savings in fiscal year 1991—

OMB: \$215 million

CBO: \$200 million

Establish a per resident payment derived from the national average of fiscal year 1987 salaries paid to residents and updated by the CPI. Primary care residents would be weighted at 180 percent of the per resident amount; nonprimary-care residents in their initial residency period would be weighted at 140 percent; and nonprimary care residents beyond their initial residency period would be weighted at 100 percent. (Payment for the direct costs of medical education for nurses and applied health professionals would not be affected by this proposal.) Cap the intern-to-bed ratio at the fiscal year 1989 ratio.

B *Physician Payment Updates*

Savings in fiscal year 1991—

OMB: \$450 million

CBO: \$335 million

Grant full Medicare Economic Index (MEI) update only for primary care physicians. Freeze customary and prevailing charge updates for nonprimary care services. No distinction is made in MEI levels for participating versus nonparticipating physicians.

B *Overpriced Procedures*

Savings in fiscal year 1991—

OMB: \$110 million

CBO: \$120 million

Reduce payments for selected overvalued procedures. OBRA 1989 reduced payments for these procedures by one-third of the amount by which they were determined to be overvalued, up to a

maximum reduction of 15 percent. This proposal reduces payments for these procedures by two-thirds of the remaining amounts, up to a maximum reduction of 25 percent.

B *Overpriced Localities*

Savings in fiscal year 1991—

OMB: \$50 million

CBO: \$50 million

Reduce payments for certain procedures in localities where payments are overvalued relative to the national average, once that average is adjusted to account for any differences in practice costs among areas, up to a maximum reduction of 25 percent. The procedures covered would exclude those covered by other administration proposals, low-volume procedures, or procedures for which the payment is expected to increase under a resource-based fee schedule.

B *Radiology and Anesthesia Fees*

Savings in fiscal year 1991—

OMB: \$230 million

CBO: \$215 million

Reduce radiology and anesthesia fees by the amount that current fees exceed an estimated resource-based fee schedule. In addition, pay the same amount for anesthesia services, regardless of whether an anesthesiologist personally performs the service or medically directs a certified registered nurse anesthetist (CRNA). Medicare would pay the anesthesiologist the difference between its payment to the CRNA and what it would have paid had the anesthesiologist actually performed the service.

B *Surgical Assistants and Surgical Global Fees*

Savings in fiscal year 1991—

OMB: \$170 million

CBO: \$175 million

Pay the same amount for a surgery regardless of whether or not the primary surgeon elects to use a surgical assistant. The Medicare payment to the primary surgeon would be reduced by the amount of the payment to the assistant surgeon.

Reduce the global fees paid for surgical procedures, which include in-hospital visits by the surgeon and post-discharge visits as well as the surgery, to reflect the reduction experienced in the length of stay by Medicare beneficiaries over the past few years.

B *New Physician Payments*

Savings in fiscal year 1991—

OMB: \$50 million

CBO: \$55 million

Continue to phase-in Medicare payment increases for new physicians. OBRA 1987 set limited fees for new physicians to 80 percent of the prevailing charge for all but primary care services and services in rural manpower shortage areas. OBRA 1989 continued, for 1 year, to phase-in increases for new physicians by limiting payments to second-year physicians to 85 percent of the prevailing charge. Under this proposal, payments to third-

fourth- and fifth-year physicians would be, respectively, 90 percent, 95 percent, and 100 percent of the prevailing charge in fiscal year 1991, and of the fee schedule amount in fiscal year 1992 forward.

B *Physician Assistant Offset*

Savings in fiscal year 1991—

OMB: \$5 million

CBO: \$5 million

Eliminate duplicate payments for physician assistant services furnished in hospitals.

B *Hospital Outpatient Payments*

Savings in fiscal year 1991—

OMB: \$670 million

CBO: \$755 million

Reduce Medicare payments for certain hospital outpatient procedures 10 percent across the board. In addition, capital payments for hospital outpatient departments would be paid at 85 percent of costs for rural hospitals and 75 percent of costs for urban hospitals.

B *Durable Medical Equipment (DME)*

Savings in fiscal year 1991—

OMB: \$320 million

CBO: \$320 million

Limit payment for DME to the median of the fee schedule amount for each item, and provide a fee update only for those items below the limit in fiscal year 1991. Modify payment for DME rental items from average *submitted* charges to average *reasonable* charges. Limit total monthly rental payments for DME rental items to 120 percent of the recognized purchase price (as opposed to 150 percent under current law). Reduce payments for oxygen by 5 percent. Set fee schedules for enteral products and supplies. Through regulations (rather than legislation), eliminate coverage for seat lift chairs and eyeglasses after the insertion of an intraocular lens.

B *Clinical Lab Services*

Savings in fiscal year 1991—

OMB: \$60 million

CBO: \$85 million

Reduce Medicare payments for clinical lab services to 90 percent of the median fee schedule amount for nonprofile tests and 80 percent of the median fee schedule amount for profile and standardized test packages. Currently, Medicare pays 93 percent of the median fee schedule amounts for all clinical lab tests.

B *Diagnostic and Radiology Tests*

Savings in fiscal year 1991—

OMB: \$60 million

CBO: \$20 million

Apply a cap of 100 percent of the national median of the technical component fees of radiology services and diagnostic tests.

B Prior Authorization

Savings in fiscal year 1991—

OMB: \$64 million

CBO: \$20 million

Extend to Part B carriers the authority to require prior authorization for medical services and/or equipment. Carriers currently have utilization review authority for these services, but do not have the authority to require prior authorization.

B End Stage Renal Disease (ESRD)

Savings in fiscal year 1991—

OMB: \$30 million

CBO: \$45 million

For beneficiaries with ESRD that have employer-sponsored health insurance, Medicare would remain the secondary payor for 18 months, rather than the current 12 months.

II. SPENDING PROPOSAL**HMO Capitation Rates**

Cost in fiscal year 1991—

OMB: \$180 million

CBO: \$190 million

Increase Medicare's capitation payments to HMOs with which it contracts from 95 percent to 100 percent of the adjusted average per capita cost (AAPCC).

III. REVENUE PROPOSALS**B State and Local Employees**

Revenue in fiscal year 1991—

OMB: \$1.87 billion

CBO: n/a

Add all State and local government employees hired before April 1, 1986 to the Medicare Program. COBRA-mandated Medicare coverage and payment of HI taxes for all new State and local government employees hired after March 31, 1986. This proposal would cover all remaining State and local government employees.

B Part B Premium

Revenue in fiscal year 1991—

OMB: \$0

CBO: \$2 million

Make permanent the 25 percent beneficiary share of Part B program costs rather than reverting to indexing the annual premium increases to the cost-of-living adjustment under current law.