Health Security Act
Scanny File

GEORGETOWN UNIVERSITY MEDICAL CENTER

Institute for Health Care Research and Policy

FACSIMILE COVER SHEET

TO: ...Chris.....

FAX Number: .....

FROM: ...Jeanne.....

Pages:

Comments:

I am going back to the Dept.
in the next couple days to get
my Reform files - I hate not having
them in reaching distance. Some
of my friends are working on the
Mainstream group estimates. Attached
is (a) Admin Plan
(b) Mitchell.

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CBO's estimation of the average premium follows the methodology specified in Section 6002 of the Administration's proposal. The estimate proceeds in three steps: calculate the initial amount of health spending in the baseline that would be paid for by premiums collected by the alliances; increase that base amount in proportion to the expected increase in the use of health services by individuals who are currently uninsured or who have coverage that is less comprehensive than the standard benefit package; and divide the result by the number of people covered by alliance premiums. The calculation of the average premium excludes spending on behalf of Medicaid cash recipients, for whom the

Table 2-2.
Estimated On-Budget and Social Security Effects of the Administration's Health Proposal
(By fiscal year, in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
				Outlays					
Subsidy Payments									
Subsidies for employers	5	17	44	55	58	67	81	92	102
Subsidies for families	6	20	54	67	70	77	83	89	95
State maintenance-of-effort payments	-2	-6	-16	-20	-20	-21	-22	-23	-24
Subtotal	9	30	82	102	108	123	142	158	173
Medicare									
Drug benefit	6	15	16	17	19	21	23	25	28
Program savings	-7	-12	-19	-28	-37	-45	-54	-65	-77
Offset for employed beneficiaries	-1	-2	-6	-8	-8	-8	-9	-9	-10
Other changes	1	1	1	2	2	2	2	2	2
Subtotal	a	2	-8	-16	-24	-30	-38	-47	-57
Medicaid									
Discontinued coverage	-2	-7	-19	-27	-31	-34	-38	-43	-48
Premium limits and DSH cuts	-1	-5	-14	-20	-24	-28	-33	-39	-45
Other changes	1	2	4	1	1	1	1	1	1
Subtotal	-2	-10	-28	-46	-54	-62	-71	-81	-92
Long-Term Care Benefit	5	8	12	16	20	28	37	40	40
Supplemental Services for Children	a	1	2	2	2	2	3	3	3
Medical Education	1	3	4	6	6	6	7	7	7
Public Health Service	2	3	3	2	2	2	2	2	2
Department of Defense	-1	-2	-2	-3	-3	-3	-3	-3	-4
Department of Veterans Affairs	a	a	-4	-5	-5	-5	-5	-5	-5
Federal Employees Health Benefits	a	a	-3	-3	-4	-5	-6	-7	-8
WIC Program	a	1	1	1	1	1	1	1	1
Other Administrative and Start-Up Costs	1	2	1	1	1	1	1	1	1
Social Security	a	a	1	2	2	2	2	2	2
Assessment for Medical Education	-1	-2	-6	-8	-8	-8	-9	-10	-10
Total, Outlays	15	36	54	50	43	51	61	60	53

	Mainstream		Mitchell	
SPENDING				
New Subsidies			$466	X
Medicaid Subsidies			$634	X
New Graduate Medical Education	$0		$82	X
Vulnerable Hospital Payments	$10		$18	X
Comm. Based Long Term Care	$10		$48	X
Medicare prescription drugs	$0		$95	X
Total Spending	$20		$1,343	
FINANCING				
Medicare Cuts	$263		$294	X
Medicaid Cuts	$120		$155	X
Conrad Auto Insurance Offset	$10			
Medicaid Transfer	$0		$634	X
Other Spending Reductions	$0		$13	X
Total Spending Cuts	$393		$1,096	
Revenues:				
Tobacco tax	$57	X	$57	X
High cost plan assessment	20 ~~$5~~		$73	X
Premium excise tax	$0		$74	X
Elim cafe plans/FSAs	$10	X	$47	X
Inc Medicare Part B premiums	$29	A	$36	X
Expanded Tax Deduction	($29)		($14)	X
Other tax changes	$9	X	($12)	X
Total Revenues	$81		$261	
Total Financing	484 ~~$474~~		$1,357	
NET DEFICIT INCREASE (DECREASE) (without Failsafe)	($454)		($14)	

X = From CBO estimate of original Mitchell proposal.

A = From separate JCT revenue estimate.

Unless otherwise indicated, the amounts provided have been estimated by staff using the available information and is subject to change.

Health Security Act: Cost Growth File

THE WHITE HOUSE

WASHINGTON

April 3, 1996

MEMORANDUM FOR PRESIDENT BILL CLINTON
HILLARY RODHAM CLINTON

FROM: IRA C. MAGAZINER

CC: MELANNE VERVEER
CHRIS JENNINGS

With the upcoming release of the Broder/Johnson book, we may once again get some questions on the health reform effort.

I thought you might be interested in the attached figures which were recently released. They show that the short term slowdown in health cost growth that the President and his health team projected, but which were disputed by so many in Washington (see attached articles), has indeed occurred.

As we said at the time, our projections were conservative. There was more than enough money in our bill to finance universal coverage and our other programs, reduce the deficit significantly and cap the growth of Medicare and Medicaid for the long term.

I suppose it is irrelevant now, but it may be useful to have these figures since this issue will probably be brought up in the book.

The big health care debate in Washington in the fall of 1993 focused on whether the President's health plan used "fantasy numbers" when projecting the potential for cuts in the growth of private health premiums and of Medicare. These slowdowns in growth were essential to financing the President's plan and to the Administration's assertion that premium caps were only a backup mechanism required for CBO scoring.

The President, the First Lady and the health care team all believed that competitive forces already underway would slow health cost growth short term and that Administration projections were conservative. However, these projections were criticized in The Wall Street Journal and by many others inside and outside the Administration, most notably Senator Moynihan (see attached articles.)

The following data shows that indeed the Administration's projections were conservative. Even if one assumes that the various surveys understate system wide premium growth, the President's proposal had more than enough money to fund universal coverage and reduce the deficit by large amounts beyond those projected.

Exhibit 1 shows that private sector premium growth rates for 1994 and 1995 were estimated at 16.2 percent cumulative in the Health Security Act, and in fact, have gone up only in a range of 1.0 percent to 7.1 percent cumulative in various surveys.

Exhibit 2 shows that Medicare savings already put into the CBO baseline and proposed in the President's 1997 budget result in a 7.1 percent annual increase in Medicare spending versus 7.8 percent projected in the Health Security Act (8.7 percent if the drug benefit and long term care initiatives are included.) Though cuts of the magnitude proposed were criticized as ruinous two years ago, almost everyone now agrees that steeper cuts are possible (even without universal coverage to cushion the blow for health care institutions.)

Longer term, the health care cost problem remains unsolved. Few health experts believe that the short term savings reflected in the figures above are sustainable without major system reform. Proposals such as the ones the Administration made -- a standard benefits package, one uniform claims form, community rating, a better outcomes information and quality system, universal coverage, cost conscious consumer choice, etc. -- are necessary to ensure the kind of sustainable productivity improvements which will slow growth without hurting the quality of care longer term.

Exhibit 1

Private Health Insurance Premium Increases, 1994-95*

	Administration Forecast for HSA	Foster-Higgins	Hay-Huggins	KPMG Peat Marwick
1994	7.8%	-1.1%	2.9%	4.8%
1995	7.8%	2.1%	1.2%	2.2%
Cumulative (compounded)	16.2%	1.0%	4.1%	7.1%

Sources: HCFA, Foster-Higgins, Hay-Huggins, KPMG Peat Marwick.

* The Administration's forecast in the HSA for the period prior to the beginning of the premium caps was for baseline growth in health insurance premiums per privately insured person under 65 years of age in the United States. This forecast was derived from aggregate data for the nation as a whole. The private firms' data are from their own surveys of firms. They are the weighted answers to the question about premium costs per employee. While the private firms claim that their weighted survey questions produce nationally representative estimates, they consider their weights to be proprietary and therefore do not reveal them. Most researchers consider the surveys more representative of large firms (where most workers work) than of small firms. The Administration data and forecast implicitly include small firms' experiences as well.

Exhibit 2

Medicare Cost Increases

	Average Annual Growth Projected in the 1993 CBO Baseline	Projected Average Annual Growth Rate Proposed (outlays, net of offsetting receipts)
Health Security Act Savings Only	10.8%	7.8%
Health Security Act All Impacts (drug benefit & long term care)	10.8%	8.7%
FY 1997 Budget (All Impacts)	10.8%	7.1%

SERVICE CUTS, ECONOMIC PAIN

Authors: Spencer Rich, Washington Post Staff Writer

Source: Washington Post, Final Edition
Date: Sunday Sep 12, 1993 Sec: A SECTION p: 1
Length: Long (1138 words) Type: News National

Article Text:

Health specialists said yesterday that it will be difficult, perhaps impossible, for President Clinton to contain costs sufficiently to make his health care plan work without severely reducing medical services for some groups or causing economic pain for others.

'The success of the plan hinges on a very ambitious program of cost containment,' said Henry J. Aaron, director of economic studies at the Brookings Institution. 'You'd have to slash and burn on prices [paid to doctors and other health care providers] or drastically reduce services' to achieve the cost savings projected by the year 2000, said Kathryn Abernethy, a health care specialist at the consulting firm Towers Perrin. 'In order for this to work, doctors are going to have to make less money; hospitals are going to have to make less money.'

Especially hard hit would be hospitals with a large number of Medicare patients, specialists said.

'It's doable, but it's not good policy,' said Gerard Anderson, director of the Johns Hopkins Center for Hospital Finance and Management. Anderson said the way the plan is now drafted, fees received by doctors, hospitals and others for treating Medicare patients could fall even further below those paid in the private sector.

That would make health care providers less and less willing to serve Medicare patients, and would limit the access to care of many patients in the government health program for the elderly.

'The quality and availability of care would suffer under the rapid de-escalation' of Medicare fees, said James Todd, executive vice president of the American Medical Association.

Skepticism that the plan could achieve the projected savings is not universal. 'We haven't looked at their numbers in detail,' said Lawrence S. Lewin, chairman of Lewin-VHI, a health policy analysis firm, 'but changes of this magnitude can be achieved without serious disruption, given enough time, if we can get industry and professional providers and consumers to undertake reasonable changes in their behavior.'

Deputy Assistant Secretary of Health and Human Services Kenneth E. Thorpe said, 'This is based on months of very rigorous analysis. We think the numbers will be consistent with Congressional Budget Office estimates.'

According to a draft of the plan that has been widely circulated in Congress, savings obtained by slowing the growth of health care costs would be used by the federal government or the private sector to subsidize health care for the 35 million to 37 million Americans without health insurance at any given time.

Access No: 93529977 ProQuest - The Washington Post Ondisc
Title: HEALTH CARE FINANCING QUESTIONED; MOYNIHAN DECRIES 'FANTASY,' HINTING SUPPORT FOR GOP PLAN
Authors: Dana Priest, Washington Post Staff Writer
Source: Washington Post, Final Edition
Date: Monday Sep 20, 1993 Sec: A SECTION p: 1
Length: Long (891 words) Type: News National
Subjects: Health care policy; Reforms; Federal budget
Names: Moynihan, Daniel P; Clinton, Bill
Companies: Republican Party; Congress

Abstract: Senate Finance Committee Chair Daniel Patrick Moynihan called the Clinton administration's plan to finance its health care reform a 'fantasy,' and said he might be more supportive of an alternative proposed by the Republican congressional leadership.

Article Text:

Senate Finance Committee Chairman Daniel Patrick Moynihan (D-N.Y.) yesterday called the Clinton administration's plan to finance its health care reform a 'fantasy,' and said he might be more supportive of an alternative proposed by the Republican congressional leadership.

Moynihan roundly dismissed both the administration's estimates of how much its new system would cost -- principally because it would cover the 37 million people who now are uninsured at any given time -- and the source of the financing. Moynihan, in an interview on NBC's 'Meet the Press,' joined a chorus of critics in challenging the administration's financing plan since a 239-page draft of the health care reform proposal was leaked and widely circulated last weekend.

White House officials have defended their calculations -- the product of four government departments and two outside groups of economists and actuaries -- and decided last week that what they need to counter the attacks is not a new set of numbers, but clearer charts to explain the current ones.

A high-ranking White House health adviser said yesterday that no elaboration on the financing scheme will be available until early October because 'there are people buried in the bowels [of the Office of Management and Budget and the Treasury Department] who need to get their licks in' and the administration does not want to be in the position of changing figures it releases.

The Republican leadership last week proposed to expand health care coverage, but more gradually than the administration, which would cover all Americans by 1997. Clinton would require employers to pay about 80 percent of an employee's health premiums, while the Republican proposal would require companies to make plans available, but not force them to pick up the premiums.

The GOP plan would also expand community health clinics, restrict an insurance company's ability to reject applicants and give states

flexibility in spending their Medicaid funds. The GOP leaders said their plan would not cost the government additional money.

Clinton's plan is estimated to cost the government $700 billion over five years and much of that would come from money it otherwise would have spent on Medicare and Medicaid.

Moynihan yesterday said of the White House proposal to squeeze $238 billion from projected spending on Medicare and Medicaid: 'It's fantasy, but accurate fantasy. These numbers all come out of their computer in that way. They won't last, they mustn't last.'

He also said the administration's belief that it could slow Medicaid's projected rate of growth by one-half after years of double-digit growth 'is to have lost touch with reality.'

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The Wall Street Journal

Monday, October 18, 1993

The Outlook: Some Hope Congress Will Alter Health Plan

By Alan **Murray**

WASHINGTON -- In the Clinton administration, there are three people -- the president, his wife and his schoolmate Ira **Magaziner** -- who are convinced that the Clinton health-care plan can do all the wonderful things it promises without a big hit to taxpayers or the deficit. But beyond those three, scarcely anyone shares that conviction.

To be sure, others in the administration do their best to put up a loyal front. White House economic czar Robert Rubin and economic adviser Laura Tyson politely defer to the greater wisdom of health-care "experts." Treasury Secretary Lloyd Bentsen practices a courtly Texas sidestep. And Budget Director Leon Panetta and his deputy Alice Rivlin try to avoid the health issue altogether.

But among the administration's economic experts, deep concern about the financing of the health-care plan is heard at every turn. In private conversations, they frequently take solace in the belief that, in the end, "Congress will fix it."

Hope springs eternal.

Twelve years ago, a similar refrain was shared privately among the economic advisers counseling President Reagan. The president was a true believer in his supply-side tax cut, and was convinced it would lead to a flood of new revenue that would prevent any worsening of the deficit. He was emboldened in that belief by outsiders such as then-Rep. Jack Kemp and by a few true-believers in his Treasury Department.

But most of his economic advisers worried that the tax cut they had proposed was too rich. They despaired of finding enough spending cuts to offset it. And among themselves, they took comfort in the belief that Congress would, in the end, save the administration from itself. Even Senator Robert Dole, the Republican's chief tax writer, predicted Congress would adopt only half of the president's tax cut.

Instead, Congress in 1981 adopted all of the president's tax cut and more, and the rest is red-ink history. It is a lesson that Mr. Clinton and his advisers would do well to remember. When it comes to

a free lunch, Congress is as quick to the table as those in the White House.

Much has changed since 1981, of course. Under current "pay-as-you-go" budget laws, Congress must pay for tax cuts or new entitlement programs by enacting offsetting tax hikes or spending cuts at the same time. And as the official scorekeeper in this budgeting game, the Congressional Budget Office wields immense power.

But the Clinton health-care plan puts the CBO and its director, Robert Reischauer, in a difficult spot. The key to financing the plan, in addition to the tobacco tax, is cuts in Medicare and Medicaid and a stringent cap on the cost of health-care premiums to hold their growth to the rate of inflation. The White House has said it plans to spell out in detail its Medicare and Medicaid cuts, and to design a premium cap from which there is no escape. As a result, the technicians at the CBO will have little choice but to "score" the savings that result.

Nevertheless, Mr. Reischauer's public statements have made it clear that he is among those who -- like most of the presidents' economic advisers -- fear the premium cap will prove too stringent in practice. The president contends the cap will merely squeeze out waste and inefficiency; but the legions of skeptics worry it may cut deep into the fabric of the health-care system, causing huge disruptions. Patients could be denied needed care, or have to wait months to get it, or have their options strictly limited in order to fit into this Procrustean bed. Faced with cries of pain and protest, Congress would be confronted with a choice of either taking away costly benefits it has already approved, or lifting the cap. Can anyone doubt the result? The cap would rise, and the government's health-care expenses would soar beyond projections.

It is possible, of course, that the Clintons and Mr. **Magaziner** are right, and the conventional wisdom is wrong. No one has a crystal ball that allows them to gaze confidently into the complex future of health care. And a slowing in the rise of health-care costs since the first of the year suggests the goal of holding premium increases to the inflation rate may be less far-fetched than many think.

It is also possible that Congress will, indeed, "fix it." Former Sen. Paul Tsongas, for one, believes Congress will be fiscally responsible, and eliminate many of the more expensive pieces of the health-care planthe prescription-drug benefit and long-term-care benefit for the elderly, for instance, as well as mental-health benefits and the subsidy for early retirees. The costs for all these add-ons are "not only huge, they are unknowable," says Mr. Tsongas, a former presidential candidate. And in the end, he believes