THE WHITE HOUSE

WASHINGTON

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MEMORANDUM TO PRESIDENT BILL CLINTON
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CC: CHRISTOPHER JENNINGS

FROM: IRA C. MAGAZINER JCM

SUBJ: HEALTH CARE "LANDMINES" IN RECONCILIATION

We have fought hard to prevent the Republicans in Congress from hurting tens of millions of vulnerable Americans by destroying the Medicare and Medicaid programs. As the final negotiations unfold, we will be focused on overall budget numbers. We should make sure that structural changes do not "sneak through" which could undermine the Medicare and Medicaid programs to an even greater extent than overzealous budget cuts.

1. Prevent "cherry picking" in Medicare

We must guard against attempts to allow health insurers or providers to risk select within the Medicare program. Denying or discouraging insurance for those who are sick or are likely to become seriously ill, or not covering their necessary treatments, or charging them significantly higher rates, is the easiest way for health plans to make money.

These practices harm tens of millions of non-elderly Americans today. Among the elderly, health plans will be even more motivated to exclude or discourage high risk patients because a small percentage of patients utilize a very high percentage of services each year.

Successful insurance systems require large pools of healthy people who pay more in premiums than the value of services they use each year in order to cover the risk that they might some day need more services than they can afford.

Most countries create very large pools by placing the elderly and disabled in the same group as the general population. We already segregate them. If we allow the pool of elderly to be further fragmented, the Medicare program will eventually fall apart.

There are many subtle ways for health plans to risk select even if it is officially not allowed. Loopholes which allow risk selection often have enticing features to them and regulations to prevent it are often cumbersome and bureaucratic.

The Republican medsave accounts and balance billing provisions encourage risk selection. Allowing health plans to design different benefits packages without a guaranteed comprehensive base of benefits also allows risk selection. Selective marketing practices or facility location or the ability to price differentially to different consumers or groups of consumers also allows risk selection.

The number one priority of the insurance and health provider allies of the Republicans is to have Medicare rules set so that they can risk select. Even if we keep the worst Medsave and balance billing provisions out, they will try to find other more sophisticated ways to set the rules of competition to their benefit.

The inevitable results of introducing risk selection into Medicare will be that the government will maintain most of the costs of the program (because it will pay for the sickest people who the insurers avoid), but with much less revenue (as private insurers capture premiums from the relatively healthy people they insure). The sickest among the elderly will eventually see a severe diminution of services because of increased prices which neither the government nor they can afford.

As you know, I believe that managed competition can create efficiencies, that integrated care can achieve savings and that substantial cuts can be made in the Medicare program. However, we must take great care that we do not agree to structuring the new system in a way which will eventually destroy the program.

2. Preserve the Medicaid Entitlement

The number of uninsured is rising at well over one million people net each year. The pace of insurance loss is accelerating as some employers drop coverage for family members of their employees, and some do not provide insurance to new or temporary workers. In addition, benefits are being cut for millions of others who have insurance. Long term care needs are also increasing faster than services.

Without increases in Medicaid coverage over the past decade, these problems would have been even more severe. While many governors and legislators would not favor a decline in Medicaid coverage even under a general block grant, others who do not believe in the Medicaid entitlement and don't see poor Medicaid recipients as important constituents politically will cut back on coverage.

We have been firm in our support of the entitlement, but must be sure that "back door" methods of erosion are not built into the reconciliation bill.

Even under a per capita cap, loopholes which effectively deny needed services to eligible populations could have perverse effects. Too great an erosion of the guaranteed benefits package, funding formulas which effectively eliminate hospitals and health centers in economically distressed areas and redefined eligibility rules which give too much "wiggle room" for defining currently eligible populations out, all could have this effect.

The result of this erosion could be an acceleration of the number of uninsured people, a decline in public health in medically underserved areas and increased costs as preventive care declines and uncompensated care increases.

3. Keep Overall Cuts Reasonable

I have always felt that the Medicare and Medicaid programs could be and should be cut. You may remember that the biggest disagreements during the formation of the Health Security Act came because the health care team wanted caps on the growth of Medicare and Medicaid which HHS and the economic team thought were too stringent.

Having said this, cuts too far beyond those we have now proposed, in the absence of broader reforms, could have serious adverse effects on the health care system.

Over $100 billion in "cuts" have already been taken off the baseline over seven years compared to the numbers we looked at two years ago. In addition, in the Health Security Act, we reinvested a significant portion of the savings back into the health system for universal coverage. We also had protections for institutions in underserved areas who disproportionately serve Medicare and Medicaid patients.

The biggest risk is with Medicaid. Without universal coverage and integration of Medicaid into the private system, it is difficult to achieve savings much beyond what we have proposed without doing serious harm to the most vulnerable patients and health providers.

From a policy perspective, if we must find health care cuts beyond those already proposed, we should look to Medicare and we should use a general cap. Nobody can predict the effects of the various cost shifts which will take place over the next few years. A more general capping system would be preferable to specified cuts (beyond the areas we have already specified), because it would allow greater flexibility in the future.