

CBO File

**CBO ESTIMATES:**  
**TALKING POINTS**

**VALIDATES PRIMARY GOALS OF HEALTH REFORM:**

1. It proves that we can guarantee all Americans with private health insurance -- and provide coverage to 39 million additional Americans -- by 2000, while at the same time reducing total health expenditures.
2. It confirms that we will be able to dramatically lower health expenditures over the long run -- \$30 billion in the year 2000 and \$150 billion in the year 2004.
3. And, finally, it validates the fact that the President's approach will lead to overall deficit reduction in the long term. Its report maintains that: *"CBO believes that the proposal holds the promise of reducing the deficit in the long term."*

**WE DIFFER WITH CBO'S SHORT-TERM DEFICIT ESTIMATES, BUT THE DIFFERENCE IS NARROW AND WILL BE WORKED OUT:**

- We are encouraged that the Congressional Budget Office agrees that the president's approach to health reform will bring down the deficit over the long term. We do however disagree on the short term deficit estimates. Our estimates call for about \$10 billion of deficit reduction per year for the first five years. CBO estimates that the proposal will add approximately \$10 - \$12 billion per year to the deficit. This difference is manageable and we will work with Congress within this range to ensure that the proposal is deficit neutral or better. And as CBO itself said: *"The difference between these estimates is small, however, compared with the uncertainty surrounding the budget projections."*
- We care about reducing the long-term deficit -- and that's what the plan will do. Let's remember that last year at this time, the Administration disagreed with the CBO about its deficit projections for the budget. But we cooperated with them to work out our differences and now we both agree that last year budget agreement will reduce the deficit even more than either of us originally projected.

***EMPLOYER PREMIUMS SHOULD NOT BE IN THE BUDGET:***

- We fundamentally disagree that employer premium payments for their employees' health insurance should be included in the federal budget. This would mean that payments currently made by private employers to private insurance companies on behalf of tens of millions of Americans would suddenly be considered part of the federal budget. These are payments from one private party to another private party. The government will neither collect nor spend this money. This transaction is similar to the requirement in many states today that residents must purchase auto insurance. The resulting payments -- between these people and their insurance companies -- are *not* counted as part of state budgets nor would anyone expect them to be.

***DIFFERENCES WILL BE WORKED OUT IN CONGRESS:***

- While we do have some differences with individual assumptions and conclusions of the CBO, these differences will be worked out in the Congressional process. Congress will meet this test. There will be adjustments of course as health care moves through the process of meeting our goal -- guaranteeing private health insurance for every American.

February 21, 1994

**MEMORANDUM FOR DISTRIBUTION**

*Chris Jennings*

**FROM:** MEEGHAN PRUNTY

**SUBJECT:** Good Quotes from CBO Analysis of HSA

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The attached document is a compilation of all of the positive quotes from the CBO analysis as well as the two days of testimony that were on the wire. Positive quotes from the media were also included. Please use this as a reference or source for whatever talking points, speeches, memos, etc. you may be working on. I put them in about 20 categories and, in most cases, left the entire quote in to be edited as your document dictates.

If you need to use it, it is on the i drive under: i\data\hlthcare\goodquo4.cbo

[Chris, Jack, Steve -- I am happy to update this with Reischauer's first day of testimony if Ways and Means ever makes it available.]

**DISTRIBUTION:** Bob Boorstin, Steve Edelstein, Debbie Fine, Christine Heenan, Harold Ickes, Chris Jennings, Greg Lawler, Jack Lew, Mike Lux, Ira Magaziner, Lynn Margherio, Lorrie McHugh, Jason Solomon, Gene Sperling, George Stephanopoulos, Melanne Verveer

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## POSITIVE CBO QUOTES

### *ACHIEVE PRESIDENT'S GOALS:*

- **Mitchell Exchange**

"SEN. MITCHELL: Mr. Reischauer, the president has stated as his principal objectives in health care reform achieving universal health insurance coverage, that is, every American having health insurance; reducing health care spending as a percentage of the gross domestic product; and achieving long-term deficit reduction. While your estimates differ from those of the administration's and you describe those differences as modest, am I correct in my understanding that your report supports the president's conclusions as to those principal objectives? . . ."

MR. REISCHAUER: If it's implemented according to the legislative language, that is correct; it would achieve all three of those objectives. .

SEN. MITCHELL: So -- so that if I may summarize your responses to these three questions, if the president's plan were adopted and implemented, all Americans would be insured against the crisis of health care --

MR. REISCHAUER: Yes.

SEN. MITCHELL: -- health care spending as a percentage of the gross domestic product would decline --

MR. REISCHAUER: Yes.

SEN. MITCHELL: -- long-term deficit reduction would be achieved --

MR. REISCHAUER: Yes.

SEN. MITCHELL: -- cost to business would decline by \$90 billion in the year 2004 -- estimated --

MR. REISCHAUER: Estimated, yes.

SEN. MITCHELL: -- and the wages of American workers would increase by an amount close to \$90 billion a year.

MR. REISCHAUER: Correct.

SEN. MITCHELL: So that all Americans would be insured, the deficit would be going down, health care spending as a percentage of the Gross Domestic Product would be going down, and the wages of American workers would be increased by up to or close to \$90 billion a year. Is that correct?

MR. REISCHAUER: That is the judgment that we reached." [Reischauer Testimony, Senate Finance Committee, 2/9/94]

- **Dingell Exchange**

"REP. DINGELL: Does the proposal provide comprehensive health coverage for all Americans?

MR. REISCHAUER: Yes, it does.

REP. DINGELL: Does the proposal increase health care choices for most Americans?

MR. REISCHAUER: In my judgment, it would.

REP. DINGELL: Does the proposal lower the rate of increase of health care costs?

MR. REISCHAUER: Yes, it would.

REP. DINGELL: Does the proposal reverse the current cost-shifting trend?

MR. REISCHAUER: Yes, it would.

REP. DINGELL: Can you tell us briefly what is the overall effect on the U.S. economy? Do wages rise in the real sense?

MR. REISCHAUER: Real wages should be positively affected by the plan, yes." [Reischauer Testimony, *House Subcommittee on Health*, 2/10/94]

- "The CBO credited the administration with coming up with a framework that appears to reconcile what many had considered irreconcilable: extending health care to all Americans while at the same time slowing the growth of medical costs, which threaten to consume 20 percent of the nation's economic output by the end of the decade." [Pearlstein and Broder, *Washington Post*, 2/9/94]

- "[The CBO analysis] is a significant acknowledgment that health reform can do what is necessary; that is, provide health coverage for all Americans while containing sky-rocketing health-care costs." [USA Today, 2/9/94]
- "[CBO] said his plan will provide insurance coverage for all Americans, reverse the tide of soaring health care costs, yield long-term deficit reduction, reduce costs to business by \$90 billion, raise wages for employees, offer a greater choice of doctors, and result in negligible job loss." [Wolf, USA Today, 2/10/94]

### **ALTERNATE BILLS:**

- "The Health Security Act is unique among proposals to restructure the health care system . . . the proposal outlines in legislation the steps that would actually have to be taken to accomplish its goals. No other proposal has come close to attempting this. Other health care proposals might appear equally complex if they provided the same level of detail as the Administration on the implementation requirements." (emphasis added) ["An Analysis of the Administration's Health Proposal", CBO, 2/9/94, p. xv]
- "These are very legitimate concerns but, again, they are not peculiar to the Health Security Act. Any proposal attempting to restructure the current health care system would face similar issues." [Congressional Budget Office, "An Analysis of the Administration's Health Proposal", 2/8/94]
- "As the Congress considers the Administration's proposal and alternatives, both comprehensive and incremental, the inherent uncertainties of change must be weighed against the detrimental consequences of the current system-increasing numbers of people who lack the security of insurance coverage for health care and the rapidly rising costs of that care." [Congressional Budget Office, "An Analysis of the Administration's Health Proposal", 2/8/94]
- **Single Payer:**  
"In fact, in my discussion with the Ways and Means Committee members yesterday, Mr. McDermott pointed out that, in fact, it would have roughly the same slowing-down effect that a single-payer plan would have." [Reischauer Testimony, Senate Finance Committee, 2/9/94]
- **Managed Competition Bills:**  
"Breaux-Durenberger-Cooper-Cooper plan does this by imposing a pretty hefty tax on employer-paid premiums above a certain level. That's going to create tensions, too." [Reischauer Testimony, Senate Finance Committee, 2/9/94]

- **Cooper**

"And, by our estimate, it would -- at the end of the projection period -- lead to covering only one-third of the people who were uninsured in our estimate." [ref to 102nd bill] [Reischauer Testimony, House Subcommittee on Health, 2/10/94]

***BUSINESS COSTS WILL BE REDUCED:***

- "But businesses' costs for health care would be significantly reduced overall . . . For example, the total premiums employers would pay for active workers would drop by about \$20 billion in the year 2000." ["An Analysis of the Administration's Health Proposal", CBO, 2/9/94, p. xiii]
- "But businesses' costs for health care would be significantly reduced overall, both because the proposal would provide substantial subsidies to firms and because it would limit the growth of premiums." [Congressional Budget Office, "An Analysis of the Administration's Health Proposal", 2/8/94]
- "[The President's proposal] would sharply reduce the growth of employer spending for health insurance. By 2004, employers would save about \$90 billion for active workers and more than \$15 billion for early retirees... " ["Analysis of the Administration's Health Proposal", CBO, 2/9/94]
- "Overall, businesses' costs for health insurance would be significantly reduced by the proposal. Businesses' insurance premiums for active workers would drop by about \$90 billion below our baseline level in the year 2004. . . . Universal coverage would mean that those firms that now offer insurance would not longer need to pay indirectly through higher doctor and hospital bills for the care given to uninsured workers and their families. On the other hand, firms that do not now provide insurance could not longer ride free." [Reischauer Testimony, Senate Finance Committee, 2/9/94]

***CHOICE WILL INCREASE FOR MOST AMERICANS:***

- "REP. DINGELL: Does the proposal increase health care choices for most Americans?

MR. REISCHAUER: In my judgment, it would." [Reischauer Testimony, House Subcommittee on Health, 2/10/94]

- ". . . most Americans will have a rather broad choice of health plans. And if they're dissatisfied with one, they could move into another." [Reischauer Testimony, House Subcommittee on Health, 2/10/94]



***COST SHIFT ELIMINATED:***

- "Universal coverage would mean that those firms that now offer insurance would not longer need to pay indirectly through higher doctor and hospital bills for the care given to uninsured workers and their families. On the other hand, firms that do not now provide insurance could not longer ride free."  
[Reischauer Testimony, Senate Finance Committee, 2/9/94]
- "REP. DINGELL: Does the proposal reverse the current cost-shifting trend?"

MR. REISCHAUER: Yes, it would." [Reischauer Testimony, *House Subcommittee on Health*, 2/10/94]

***DEFICIT REDUCTION:***

- "[CBO Chairman Reischauer said] significant deficit reduction will be achieved by 2004." [UPI, 2/9/94]
- "And finally, as I noted earlier . . . the proposal should make ever-increasing contributions to deficit reduction after 2004." [Reischauer Testimony, Senate Finance Committee, 2/9/94]
- "By 2004, however, the estimated effects on the deficit are negligible, and CBO believes that the proposal holds the promise of reducing the deficit in the long term." [Congressional Budget Office, "An Analysis of the Administration's Health Proposal", 2/8/94]
- "By 2004, CBO estimates that the proposal would have no appreciable effect on the deficit. If we had the ability to project further into the future, we would presumably see that the proposal would reduce the deficit by growing amounts after 2004." [Reischauer Testimony, Senate Finance Committee, 2/9/94]
- "SEN. MITCHELL: -- long-term deficit reduction would be achieved --"

MR. REISCHAUER: Yes." [Reischauer Testimony, Senate Finance Committee, 2/9/94]

- "[This] difference of opinion may have more political than economic significance: Both predict that the Clinton plan will begin saving money for the government, business, and consumers by the year 2000." [Pearlstein and Broder, Washington Post, 2/9/94]

***DIFFERENCE BETWEEN ESTIMATES IS SMALL:***

- "The difference between these estimates is small, however, compared with the uncertainty surrounding the budget projections." [Congressional Budget Office, "An Analysis of the Administration's Health Proposal", 2/8/94]

- "Some of the numbers will seem large when examined in isolation, but when compared to the size of the economy, the baseline level of national health expenditures, government spending on Medicare and Medicaid, and even the deficit, they may be relatively trivial." [Reischauer Testimony, Senate Finance Committee, 2/9/94]
- "Some might be tempted to exaggerate the importance of this difference, so let me place these numbers in their proper context. First, \$126 billion is less than 6 percent of both the deficits accumulated over the past decade and the deficits that we project for the next 10 years. Second, \$126 billion represents less than 3 percent of the projected federal spending on Medicare and Medicaid during the next 10-year period. Third, the number should be balanced against the advantage of living in a nation in which no one lacks health insurance coverage. And finally, as I noted earlier, if the premium restraints are adhered to, the proposal should make ever-increasing contributions to deficit reduction after 2004." [Reischauer Testimony, Senate Finance Committee, 2/9/94]
- "[Reischauer] also went out of his way to call the differences in financial estimates 'relatively small potatoes in the great scheme of things.'" [Pear, New York Times, 2/9/94]

**FAMILIES WILL BENEFIT:**

- "And if all this happens, of course, according to the bill and our estimates, Americans will have more money in their pockets to spend both on private items -- food, clothing, entertainment, travel, whatever -- and on public services as well." [Reischauer Testimony, House Subcommittee on Health, 2/10/94]
- "The Clinton plan, when compared to today's system, would cost average Americans less money, give them more health benefits and more choice of physicians and medical care, [Reischauer] said." [Priest and Rich, Washington Post, 2/9/94]

**HOSPITALS (DSH):**

- "Well, remember, one reason we have the disproportionate share payment is that we have a lot of individuals trooping into our hospitals or being carried into our hospitals who don't have any insurance coverage and this is a bad debt problem, an uncompensated care problem for these hospitals. This plan and any other plan that provides for universal coverage, of course, means that many of those individuals now placing a tremendous burden on these hospitals would have insurance coverage. The hospitals would be reimbursed for that care that they're providing, and they'd be reimbursed at higher rates of reimbursement relative to the average than is now the case under the Medicaid program." [Reischauer Testimony, House Subcommittee on Health, 2/10/94]

- "And so I don't think this is an area where anybody would argue the situation isn't going to get better for that class of hospitals." [Reischauer Testimony, *House Subcommittee on Health*, 2/10/94]
- "But it's paying it for lots of folks who will have insurance coverage now, and so these hospitals, in fact, are going to be better off for those groups of people that they treat now who don't have insurance coverage." [Reischauer Testimony, *House Subcommittee on Health*, 2/10/94]

### **JOB LOSS NEGLIGIBLE:**

- "Taking all of these labor market reactions together, CBO estimates that eventually between one-quarter and one percent of the labor force might prefer to stay home under the proposal, but I should add that CBO does not expect there to be a significant impact on the unemployment rate." [Reischauer Testimony, *Senate Finance Committee*, 2/9/94]
- "Well, what we're saying is that the size of the labor force might diminish somewhat, between a quarter of a percentage point and one percentage point, eventually, in the long run, 15, 20 years. It will decline largely because some individuals will take advantage of the incentive to retire early because they will get health insurance coverage as early retirees." (emphasis added) [Reischauer Testimony, *Senate Finance Committee*, 2/9/94]
- "The impact of these changes on aggregate labor supply is likely to be quite small. . ." [Reischauer Testimony, *House Subcommittee on Health*, 2/10/94]
- ". . . somewhere between one quarter of 1 percent and 1 percent of the labor force might prefer to stay home under this proposal. But I should add, as a number of you have mentioned, that CBO does not expect there to be any significant impact on the unemployment rate." [Reischauer Testimony, *House Subcommittee on Health*, 2/10/94]
- "The Clinton plan, [CBO] concluded, would not significantly slow the economy or result in the loss of jobs, as many critics have charged." [Pearlstein and Broder, *Washington Post*, 2/9/94]
- ". . . [the proposal] would alter the unemployment rate little." [CBO, "An Analysis of the Administration's Health Proposal", 2/9/94, p.51]
- "Plus there will be some job creation probably because of the expansion of home and community-based health care for the disabled." [Reischauer Testimony, *Senate Finance Committee*, 2/9/94]

- "Finally, some welfare recipients might be enticed into the labor force because of the proposal's incentives." [Reischauer Testimony, *House Subcommittee on Health*, 2/10/94]
- "Rather, the major impact would be voluntary early retirement . . ." [Reischauer Testimony, *House Subcommittee on Health*, 2/10/94]

**Re. NFIB Analysis:** ". . . Do you believe that the administration's bill will result in a loss of 3.1 million jobs, as the NFIB contends?"

MR. REISCHAUER: No, I don't, and I think the estimates that you refer to are highly exaggerated. They often come from a kind of logic that is flawed." [Reischauer Testimony, *House Subcommittee on Health*, 2/10/94]

**MEDICARE SAVINGS ARE ACHIEVABLE:**

- "Medicare program. And you know, those costs I think -- our savings, in fact, are quite real and quite achievable." [Reischauer Testimony, *House Subcommittee on Health*, 2/10/94]

**NATIONAL HEALTH EXPENDITURES:**

- "The numbers that I provided for you on national health expenditures indicates that it will slow down the rate of growth of national health expenditures by a substantial amount." [Reischauer Testimony, *Senate Finance Committee*, 2/9/94]
- "Thus, CBO projects that national health expenditures would fall \$30 billion below the current CBO baseline by calendar year 2000, and would be \$150 billion (7 percent) below that baseline in 2004." ["An Analysis of the Administration's Health Proposal", *CBO*, 2/9/94, p. xii]
- "Once the administration's proposal was fully implemented it would significantly reduce the projected growth of national health expenditures." [*CBO*, 2/9/94, p. 26]
- **Initial rise, then fall:** ". . . national health expenditures will rise by between 1 percent and 3 percent above our baseline projections during the period which the alliance system is being phased in. The increase is the inevitable consequence of extending coverage to millions of uninsured Americans, increasing the generosity of the benefits that many currently insured people enjoy and expanding services for the disabled. By 2000, the limits placed on the growth of premiums and the Medicare savings are sufficient to reduce national health expenditures some \$30 billion below our baseline level. By the year 2004, national health expenditures should be some \$150 billion or 7 percent below the baseline level." [Reischauer Testimony, *House Subcommittee on Health*, 2/10/94]

***NUMBERS UNCERTAIN / HARD TO PREDICT / LONG-TERM IMPORTANT:***

- "Focusing on the effects of proposals in their early years is, therefore, not very meaningful; it is the long-term impacts, when new coverages would be fully phased in and the system stabilized, that are important." ["An Analysis of the Administration's Health Proposal", CBO, 2/9/94, p. xiii]
- "The first of these is the great uncertainty that surrounds all estimates of this proposal and estimates of all other systemic reform initiatives." [Reischauer Testimony, Senate Finance Committee, 2/9/94]
- "... and as I pointed out in our report, you have to weigh that uncertainty against the knowledge that you have that staying the course with the existing system is going to create an increasingly serious set of health care problems in this country, more and more people being uninsured." [Reischauer Testimony, Senate Finance Committee, 2/9/94]
- "... it will take some time before the full consequences of the proposed system play themselves out." [Reischauer Testimony, Senate Finance Committee, 2/9/94]
- "For these reasons your attention should focus on the long-term effects of the proposal." [Reischauer Testimony, Senate Finance Committee, 2/9/94]

***ON-BUDGET / OFF-BUDGET ISSUES:***

- "First let me say the "T" word has not crossed my lips, nor will it." [Reischauer Testimony, Senate Finance Committee, 2/9/94]
- "But a more important thing, which I would urge on this committee: you should design a health care plan that makes sense, that effectively achieves the objectives you want to achieve, and not get all caught up in whether it would -- on the budgetary treatment." [Reischauer Testimony, Senate Finance Committee, 2/9/94]

***PRAISE FOR ADMINISTRATION:***

- "The administration has put forward the most far-reaching piece of social legislation since President Roosevelt proposed the Social Security Act some 60 years ago." [Reischauer Testimony, Senate Finance Committee, 2/9/94]
- "Lots of individuals at OMB, at HCFA, at HHS were there to help us understand the intricacies of this bill, to tell us how they did their estimating, which, as far as I can tell, really was done without any bias at all, was a first-rate professional effort to get at these costs." [Reischauer Testimony, Senate Finance Committee, 2/9/94]

### ***PRAISE FOR LEWIN STUDY:***

- "... the Virginia-based consulting firm Lewin-VHI in its excellent study of the president's plan." [Reischauer Testimony, Senate Finance Committee, 2/9/94]

### ***PREMIUM CAPS ARE EFFECTIVE:***

- "We examined the premium limits that are in the bill and we regarded them to be an effective mechanism for restraining the growth of premiums for this basic benefit package." [Reischauer Testimony, Senate Finance Committee, 2/9/94]
- "I mean that the premium caps will effectively set limits on the costs of this basic package of benefits." [Reischauer Testimony, Senate Finance Committee, 2/9/94]

### ***SMALL BUSINESSES WILL BENEFIT:***

- "[The proposal] would benefit smaller firms that typically pay much higher premiums than larger firms. This leveling of costs could benefit all small businesses -- not just those that provide insurance today. With access to more affordable insurance, small businesses would be better able to attract workers who now demand health insurance as a condition of employment." ["An Analysis of the Administration's Health Proposal", CBO, 2/9/94, p. 54]

### ***WARNING TO OPPONENTS OF REFORM:***

- "Mr. Chairman, let me close by noting that some might use the information contained in our report in destructive rather than constructive ways. That would be tragic. Thanks to the courage and efforts of the president, we are once again trying to grapple with a serious national problem, one which presidents from both parties -- Harry Truman, Richard Nixon, Jimmy Carter, and George Bush -- tried to address. Each of them was stymied, however, because the solutions are so complex and because health reform unavoidably involves significant redistribution, a topic that our society does not like to deal with directly. But we must remember both that the problems inherent in the current health financing system will only grow worse if nothing is done and that the current system already contains huge amounts of redistribution, most of which is invisible and much of which is inequitable and distortionary." [Reischauer Testimony, Senate Finance Committee, 2/9/94]
- "Let me close by saying that I hope very sincerely that the information contained in the CBO's report will be used in constructive ways, in ways that advance the debate on how we can reform our health care system -- our system of health care financing. Presidents Truman, Nixon, Carter, and Bush all tried to address this major national problem, but all were stymied. With each passing year, the problem only deepens and the solutions only become more difficult." [Reischauer Testimony, House Subcommittee on Health, 2/10/94]

- "Thanks to the courage and efforts of President Clinton, the Congress has another chance to craft a solution to this serious national problem. It would be tragic if we failed to take advantage of this opportunity." [Reischauer Testimony, House Subcommittee on Health, 2/10/94]
- "I have considerable foreboding that the information contained in my statement and the CBO report might be used in destructive rather than constructive ways -- that is, it might be used to undercut a serious discussion of health reform alternatives or to gain some short-term partisan political advantage," Reischauer said. He warned that the debate on this issue too often degenerated into "semantic mud wrestling and name calling."  
[SOURCE??, 2/9/94]

#### **UNIVERSAL COVERAGE / COMPREHENSIVE CARE:**

- ". . . there will obviously be universal coverage, it will be successful -- number one." [Reischauer Testimony, Senate Finance Committee, 2/9/94]
- "REP. DINGELL: Does the proposal provide comprehensive health coverage for all Americans?"

MR. REISCHAUER: Yes, it does." [Reischauer Testimony, House Subcommittee on Health, 2/10/94]

#### **WHY UNIVERSAL COVERAGE?**

- "Well, what we have said in a number of our reports is that as long as you're going to have insurance pay for a lot of health care, bringing everybody into the tent is a first step towards rationalizing the system, because if everybody isn't under the insurance tent, then what you do will have detrimental impacts in the sense that changes in incentives on the folks with insurance will manifest themselves in cost shifting off onto others or increased numbers of people lacking health insurance, those with health insurance having to pick up the cost, and so on." [Reischauer Testimony, *House Subcommittee on Health*, 2/10/94]

#### **WORKER'S WAGES WILL INCREASE:**

- "And to the extent that business' costs are reduced, these will result in higher wages. The vast preponderance of that \$90 billion would be passed on to workers in the form of higher wages." [Reischauer Testimony, Senate Finance Committee, 2/9/94]

- "SEN. MITCHELL: -- and the wages of American workers would increase by an amount close to \$90 billion a year.

MR. REISCHAUER: Correct." [Reischauer Testimony, Senate Finance Committee, 2/9/94]

- ". . . the lion's share of those savings would be returned to workers in the form of higher cash wages. . . ." ["An Analysis of the Administration's Health Proposal", CBO, 2/9/94, p. 35]
- "First, the proposal would increase the cash wages of U.S. workers . . ." ["An Analysis of the Administration's Health Proposal", CBO, 2/9/94, p. 51]
- "Thus, the significant savings that the Administration's proposal would produce compared with current policy would be largely passed on to workers in the form of higher wages." [Congressional Budget Office, "An Analysis of the Administration's Health Proposal", 2/8/94]

#### **WHY NOT 100+ ALLIANCES?**

- ". . . you are diluting the effect of community rating when you do that, because what will happen is only employers with below-average risk pools will be forming corporate alliances. And those employers that have older, less healthy workers or workers' families will all be in the regional alliance. So we'll sort of have one basket of good eggs and a basket of bad eggs, and we will have in a sense a two-tier system. And it's a very different one from the one that the president has proposed." [Reischauer Testimony, House Subcommittee on Health, 2/10/94]

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February 9, 1994

**MEMORANDUM FOR DISTRIBUTION**

**FROM: IRA C. MAGAZINER**  
**SUBJECT: THE CBO REPORT**

The CBO report confirms that we can provide universal private insurance coverage to all Americans and still decrease national health care spending.

*"Once the Administration's proposal was fully implemented, it would significantly reduce the projected growth of national health expenditures...By 2004, CBO projects the total spending for health would be \$150 billion or 7% below where it would be if current policies and trends continued." (CBO Report, p. 26)*

The projections for national health expenditures under the Health Security Act by CBO and the Administration are virtually identical, although CBO believes the federal government will realize less savings than the Administration projects and that business and state and local governments will save more than we projected. (See attached memo.)

It validates that the Health Security Act achieves long-term deficit reduction.

*"CBO's estimates of the effects of the proposal on the deficit differ only modestly from those of the Administration." (CBO Report, p. xiii)*

The scope and detail of the Health Security Act are necessary to achieve the goals of comprehensive health reform.

*"The Health Security Act is unique among proposals to restructure the Health Care System, both because of its scope and its attention to detail. Some critics of the proposal maintain that it is too complex. A major reason for [the HSA's] complexity, however, is that the proposal outlines in legislation the steps that would actually have to be taken to accomplish its goals...Other health care proposals might appear equally complex if they provided the same level of detail as the Administration on the implementation requirements."*

*"The Administration has developed a comprehensive proposal that, if implemented as envisioned by its architects, could alleviate the problems it seeks to address: lack of insurance coverage, lack of access to health care, and rapidly rising health care costs." (CBO Report, p. 68)*

### Next Steps

The following issues require further analysis:

- Premium estimates and underlying assumptions

The CBO premium estimates are 15% higher than the Administration's.

- Distribution of spending by sector of the economy

CBO projects higher federal government costs and lower business and state and local government spending than the Administration.

- Federal government spending on subsidies

CBO projects higher federal government spending for subsidies due, in part, to higher premiums and different behavioral assumptions of business.

- Revenue estimates

- Federal budget savings estimates, i.e. VA, DOD, Medicare, etc.

By the middle of next week, we will develop a detailed analysis of the CBO report. We will also prepare for internal use some options on policy changes to address the deficit increase (assuming CBO assumptions) projected by CBO. These options will focus on reallocation of savings among different sectors of the economy rather than altering the scope of our proposal.

## THE CBO ANALYSIS

February 9, 1994

- The fundamental premise of the President's approach to health reform is that we can guarantee private insurance to every American and still reduce the amount the nation spends on health care. Yesterday, the Congressional Budget Office completely validated that premise.
- In fact, the CBO determined that, **between the years 2000 and 2004, we will be able to guarantee private insurance to all Americans while spending \$413 billion less on health care.** That's \$413 billion that can go to higher wages for American workers, money that businesses can invest and use to create jobs, and increased savings.
- The CBO and the Administration agree that the President's approach will save money. In fact, the two estimates of savings in national health expenditures -- that is, total spending for health care in the country -- are very close. The difference between the Administration and the CBO analyses is that CBO predicts that these savings will initially go to businesses and state/local governments. In contrast, the administration expects these savings to initially go to the federal government and therefore to immediately begin to reduce the deficit. The \$133 billion "difference" in the CBO and the Administration deficit estimates -- which is described as "*small*" in the CBO analysis itself -- is a result of these differing assumptions. **Nonetheless, the CBO too projects long-term deficit reduction.** [CBO Analysis, p. xiii]
- This issue clearly can be resolved. Since we are in agreement on the essential framework, the deficit issue is something that can be easily worked out as the proposal proceeds through what will be a very substantive process in the U.S. Congress. **We stress that the President's health reform proposal will pay for itself and reduce the deficit.**

## THE CBO ANALYSIS

**Sen. Mitchell:** *"Am I correct in my understanding that your report supports the President's conclusions as to those principal objections . . . So that all Americans would be insured, the deficit would be going down, health care spending as a percentage of the Gross Domestic Product would be going down, and the wages of American workers would be increased by up to or close to \$90 billion a year. Is that correct?"*

**Mr. Reischauer:** *"That is the judgment that we reached."*  
[CBO Testimony, Senate Finance Committee, 2/9/94]

### A. **VALIDATES THE PRESIDENT'S APPROACH**

- **The President's approach will guarantee every American private health insurance and control costs.**
  - *"The CBO credited the administration with coming up with a framework that appears to reconcile what many had considered irreconcilable: extending health care to all Americans while at the same time slowing the growth of medical costs, which threaten to consume 20 percent of the nation's economic output by the end of the decade."* [Pearlstein and Broder, Washington Post, 2/9/94]
  - *"[The CBO analysis] is a significant acknowledgment that healthreform can do what is necessary; that is, provide health coverage for all Americans while containing sky-rocketing health-care costs."* [USA Today, 2/9/94]
- **American families will benefit from the President's approach.**
  - *"The Clinton plan, when compared to today's system, would cost average Americans less money, give them more health benefits and more choice of physicians and medical care, [Reischauer] said."* [Priest and Rich, Washington Post, 2/9/94]
- **The President's approach will lead to deficit reduction.**
  - *"[CBO Chairman Reischauer said] significant deficit reduction will be achieved by 2004."* [UPI, 2/9/94]

## THE CBO ANALYSIS

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- **American workers will get higher wages from the President's approach.**
  - *"... the lion's share of those savings would be returned to workers in the form of higher cash wages. . . "* [CBO, 2/9/94, p. 35]
  - *"First, the proposal would increase the cash wages of U.S. workers . . . "* ["An Analysis of the Administration's Health Proposal", CBO, 2/9/94, p. 51]
- **National health expenditures will be "significantly" reduced under the President's approach.**
  - *"Thus, CBO projects that national health expenditures would fall \$30 billion below the current CBO baseline by calendar year 2000, and would be \$150 billion (7 percent) below that baseline in 2004."* ["An Analysis of the Administration's Health Proposal", CBO, 2/9/94, p. xii]
  - *"Once the administration's proposal was fully implemented it would significantly reduce the projected growth of national health expenditures."* [CBO, 2/9/94, p. 26]
- **Businesses will save substantially under the President's approach.**
  - *"[The President's proposal] would sharply reduce the growth of employer spending for health insurance. By 2004, employers would save about \$90 billion for active workers and more than \$15 billion for early retirees..."* ["Analysis of the Administration's Health Proposal", CBO, 2/9/94]
  - *"But businesses' costs for health care would be significantly reduced overall . . . For example, the total premiums employers would pay for active workers would drop by about \$20 billion in the year 2000."* ["An Analysis of the Administration's Health Proposal", CBO, 2/9/94, p. xiii]
- **All small businesses will benefit.**
  - *"[The proposal] would benefit smaller firms that typically pay much higher premiums than larger firms. This leveling of costs could benefit all small businesses -- not just those that provide insurance today. With access to more affordable insurance, small businesses would be better able to attract workers who now demand health insurance as a condition of employment."* ["An Analysis of the Administration's Health Proposal", CBO, 2/9/94, p. 54]

## THE CBO ANALYSIS

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### B. WHAT IS OUR RESPONSE TO . . .

- **Reports that the CBO claims job loss:**

The CBO analysis specifically states, as do many independent studies, that the President's approach will have a negligible, or positive, effect on employment.

-- *"The Clinton plan, [CBO] concluded, would not significantly slow the economy or result in the loss of jobs, as many critics have charged."* [Pearlstein and Broder, Washington Post, 2/9/94]

-- *" . . . [the proposal] would alter the unemployment rate little."* [CBO, "An Analysis of the Administration's Health Proposal", 2/9/94, p.51]

In fact, some independent studies say there will be job creation.

-- Two independent studies -- one from the Economic Policy Institute and one from the Employee Benefit Research Institute -- predict that jobs will be created as a result of health reform. The EPI projects that 258,000 manufacturing jobs will be created over the next decade. And the Employee Benefit Research Institute predicts that the President's proposal could produce as many as 660,000 jobs. There will also be health care jobs created -- with one health economist at the Brookings Institution predicting that the plan will create 750,000 health-related jobs. [EPI, November 1993; EBRI, November 1993; Reuters, 9/16/93]

The CBO says that the primary changes in the labor market would be a result of voluntary retirement as Americans who have worked hard their whole lives are no longer locked into their jobs just to keep their health coverage.

-- *"CBO estimates that eventually between one quarter of a percent and 1 percent of the labor force might prefer to stay at home if the proposal were enacted."* ["An Analysis of the Administration's Health Proposal", CBO, 2/9/94, p. xiv]

## THE CBO ANALYSIS

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- **Differences in Short-Term Deficit Projections:**

The Administration and the CBO agree that the President's approach will create savings. CBO shows the initial savings going to private sector and state/local governments, rather than to the federal government as the Administration projects. The difference between the CBO and Administration deficit estimates -- which was described as "small" in the CBO analysis itself -- is a result of this allocation. Nonetheless, the CBO too projects long-term deficit reduction.

-- *"[Reischauer] also went out of his way to call the differences in financial estimates 'relatively small potatoes in the great scheme of things.'" [Pear, New York Times, 2/9/94]*

-- In fact, the difference between the Administration's and the CBO deficit estimates is only about 4% of the projected federal health expenditures during the same period -- and much less than 1% of the total federal budget (.13%). [internal calculations from CBO, Table 2-1, p. 26]

-- *"[CBO Chairman Reischauer said] significant deficit reduction will be achieved by 2004." [UPI, 2/9/94]*

-- *"[This] difference of opinion may have more political than economic significance: Both predict that the Clinton plan will begin saving money for the government, business, and consumers by the year 2000." [Pearlstein and Broder, Washington Post, 2/9/94]*

-- *"Focusing on the effects of proposals in their early years is, therefore, not very meaningful; it is the long-term impacts, when new coverages would be fully phased in and the system stabilized, that are important." ["An Analysis of the Administration's Health Proposal", CBO, 2/9/94, p. xiii]*

### C. **OUR PROPOSAL STANDS ALONE IN SPELLING OUT SPECIFICS:**

-- *"The Health Security Act is unique among proposals to restructure the health care system . . . the proposal outlines in legislation the steps that would actually have to be taken to accomplish its goals. **No other proposal has come close to attempting this.** Other health care proposals might appear equally complex if they provided the same level of detail as the Administration on the **implementation requirements.**" (emphasis added) ["An Analysis of the Administration's Health Proposal", CBO, 2/9/94, p. xv]*

## THE CBO REPORT AND THE HEALTH SECURITY ACT

The analysis released on February 8, 1994 by the Congressional Budget Office validates the fact that the President's proposal will guarantee every American comprehensive benefits while still achieving national health savings [Table 1]. CBO states that: "*CBO projects that national health expenditures would fall \$30 billion below the current CBO baseline by calendar year 2000, and would be \$150 billion (7 percent) below that baseline in 2004.*" [CBO, 2/9/94, p. xii]

In fact, an examination of the CBO estimates of national health spending under the Health Security Act shows that CBO's projections are virtually identical to the Administration's projections [Table 2]. The CBO analysis confirms that the financing is there and, in fact, substantial savings result. The issue then becomes how these costs and savings will be allocated among different sectors of the economy -- particularly in the short-term.

The major differences between the CBO and Administration's analyses are the assumptions about who realizes the extra initial costs and the eventual savings from health reform. For example, CBO shows private business and state and local government savings to be much greater than the Administration projections while at the same time showing a comparable increase in federal government spending.

CBO reaches these conclusions for several reasons:

- CBO projects that more firms will be eligible for discounts under the Health Security Act, increasing the federal government's share of premium payments and reducing business and household payments.
- CBO assumes that more of the services now paid for by state and local governments on health care will be covered by the guaranteed benefits package and therefore financed by premiums. Since this shift will result in higher premium costs, payments by the federal government in subsidies will increase and payments by state and local governments will decrease.
- CBO believes that businesses will change behavior in ways which save them money, yet add cost to the federal government:
  - Business will find creative ways to get more government discounts. This results in savings to business and increased federal government spending.



## **CBO REPORT: *National Health Spending***

Page 2

- Businesses will try to maintain cafeteria plan deductions even though health care will be excluded, which will result in savings to business and less federal revenue.
- Most large employers will join regional health alliances to take advantage of the premium caps. This results in savings to business and increased federal government spending on subsidies.

Overall, CBO projects that in the year 2000, business will spend \$20 billion less than they would absent reform and state and local governments will spend \$78 billion less. In the year 2004, business will save \$90 billion and state and local governments will save \$114 billion. Administration projections show similar savings which are allocated among different sectors of the economy.

**CBO REPORT: National Health Spending**

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**Table 1**

Beginning in the year 2000, CBO estimates that the President's approach will begin saving the nation money. In the year 2004 alone, CBO projects that the nation will save \$150 billion in national health expenditures -- a 7% reduction. From 2000 to 2004, the nation will spend \$413 billion less than would have been spent without reform.

**CBO ESTIMATES**  
**"Effects of Health Security Act on National Health Expenditures"**  
(Dollars in Billions)

|                                    | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003  | 2004  |
|------------------------------------|------|------|------|------|------|------|------|-------|-------|
| <b>Baseline</b><br>(Before Reform) | 1163 | 1263 | 1372 | 1488 | 1613 | 1748 | 1894 | 2052  | 2220  |
| <b>Health Security Act</b>         | 1176 | 1285 | 1411 | 1489 | 1583 | 1700 | 1820 | 1942  | 2070  |
| <b>Net Savings</b>                 | 13   | 22   | 40   | 1    | (30) | (48) | (74) | (110) | (150) |

Source: "An Analysis of the Administration's Health Proposal", CBO, p. 26.

**Table 2**

The CBO estimates of the effects on national health spending under the Health Security Act are virtually identical to the Administration projections.

**COMPARISON BETWEEN CBO AND ADMINISTRATION ESTIMATES**  
**"National Health Expenditures under the Health Security Act"**  
(Dollars in Billions)

|                                | 1996 | 1997 | 1998 | 1999 | 2000 |
|--------------------------------|------|------|------|------|------|
| <b>CBO Estimate</b>            | 1176 | 1285 | 1411 | 1489 | 1583 |
| <b>Administration Estimate</b> | 1179 | 1290 | 1407 | 1492 | 1597 |
| <b>Difference</b>              | (3)  | (5)  | 4    | (3)  | (14) |

Sources: "An Analysis of the Administration's Health Proposal", CBO, p. 26; Administration Estimates

## THE CBO REPORT AND THE HEALTH SECURITY ACT

CBO validates the fact that everyone can be insured with comprehensive benefits while still achieving national health savings under the President's plan. By the year 2004, with guaranteed benefits, CBO projects a 7% reduction in national health care spending.

### CBO ESTIMATES EFFECTS OF HEALTH SECURITY ACT ON NATIONAL HEALTH EXPENDITURES \$BB

|                                | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003  | 2004  |
|--------------------------------|------|------|------|------|------|------|------|-------|-------|
| Baseline<br>(before<br>reform) | 1163 | 1263 | 1372 | 1488 | 1613 | 1748 | 1894 | 2052  | 2220  |
| HSA                            | 1176 | 1285 | 1411 | 1489 | 1583 | 1700 | 1820 | 1942  | 2070  |
| Net<br>Savings                 | 13   | 22   | 40   | 1    | (30) | (48) | (75) | (110) | (150) |

Source: CBO "An Analysis of the Administration's Health Proposal", p. 26.

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### NATIONAL HEALTH EXPENDITURES HEALTH SECURITY ACT \$BB

|                            | 1996 | 1997 | 1998 | 1999 | 2000 |
|----------------------------|------|------|------|------|------|
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Since CBO's projections of overall health care spending are comparable to the Administration's estimates, the real issue is how spending and savings are distributed. The major differences in the CBO and the Administration's analyses are the assumptions about who realizes the extra initial costs and the eventual savings from health reform. For example, CBO shows private business and state and local government savings to be much greater than the Administration projections while at the same time showing a comparable increase in federal government spending.

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  - Business will spin off low-wage workers into small firms to get better discounts. This results in savings to business and increased federal government spending.
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Since CBO projects total health care spending consistent with the Administration's estimates, the issue is not whether we can afford guaranteed private health insurance with comprehensive benefits for all Americans. The issue becomes how the costs and savings will be divided between the different sectors of the economy.

**THE CBO REPORT AND THE HEALTH SECURITY ACT**

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EFFECTS OF HEALTH SECURITY ACT  
ON NATIONAL HEALTH EXPENDITURES  
\$BB**

|                                | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003  | 2004  |
|--------------------------------|------|------|------|------|------|------|------|-------|-------|
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**NATIONAL HEALTH EXPENDITURES  
HEALTH SECURITY ACT  
\$BB**

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### CBO ESTIMATES EFFECTS OF HEALTH SECURITY ACT ON NATIONAL HEALTH EXPENDITURES \$BB

|                                | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003  | 2004  |
|--------------------------------|------|------|------|------|------|------|------|-------|-------|
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EFFECTS OF HEALTH SECURITY ACT  
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\$BB**

|                          | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003  | 2004  |
|--------------------------|------|------|------|------|------|------|------|-------|-------|
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## **CBO QUESTIONS**

### **QUESTION 1**

There is broad consensus that health care reform is necessary to achieve federal deficit reduction in the long term.

While your numbers are somewhat different from the Administration's, would you agree that the President's plan, as written, would achieve the goal of deficit reduction over the long term?

[CBO shows deficit increases until 2003, but no deficit in 2004. The report states that "...CBO believes that the proposal holds the promise of reducing the deficit in the long term."]

### **QUESTION 2**

Is it your view that the President's plan would, in fact, reduce national health spending over time? Doesn't this mean that employers and families, in the aggregate, will pay less under the President's plan than under the status quo?

[CBO numbers show a reduction in national health expenditures relative to baseline of \$150 billion in 2004 -- a 7% reduction. CBO also projects that health spending as a percentage of GDP would decrease by over one percentage point in 2004 -- from over 20% to 19% of GDP.]

### **QUESTION 3**

While your numbers differ somewhat from the administration's, it seems to me that your conclusions support the President's view that we can achieve universal health coverage, reductions in health care spending as a percentage of GDP, and long term deficit reduction. Do your numbers support this conclusion?

### **QUESTION 4**

Given that national health expenditures are nearly one trillion dollars, how would you characterize the differences between your estimates and the administration's?

Would you agree that the differences between your estimates and the

administration's are relatively modest in the scheme of things?

#### **QUESTION 5**

It appears that some of the differences between your estimates and the administration's result from alternative interpretations of how people would behave in response to reform.

For example, it is my understanding that you predict that many large employers will choose to join regional health alliances rather than continue to operate their own health plans, while the administration believes that many of these large employers will continue to manage health care costs through their own plans.

Given the uncertainty involved in predicting behavior like this, isn't the administration's assumption also credible? How much of a difference would it make if the administration's assumption turned out to be correct? Would it change your estimates by several billion dollars a year?

#### **QUESTION 6**

Your numbers seem to show that subsidies increase faster than premiums. I understand that after the year 2000 there are policy changes that cause an increase in subsidies. For example, state and local governments become eligible for premium discounts in 2002.

But before the year 2000, why are subsidies increasing faster than premiums? Wouldn't the fact that most of the subsidy eligibility levels are indexed to inflation prevent this from happening?

#### **QUESTION 7**

I read your report as saying that the overall financing of the Health Security Act is sound. Would you agree with this conclusions?

In your opinion, could relatively modest changes in the Health Security Act make it deficit neutral within the five year budget window?

## **QUESTION 8**

Would you say that the premium caps in the Health Security Act are an effective cost containment mechanism?

## **QUESTION 9**

You estimate that even by the year 2000, the Health Security Act will extend private health insurance to all Americans and reduce total national health spending. So total health spending goes down by the year 2000, but the federal deficit would rise slightly.

This must mean that employers and families are saving money, right?

Given that total national health spending is falling, shouldn't we able to shift the financing around a bit so that employers and families save money and the government saves money, too?

## **QUESTION 10**

I understand that you are suggesting that private health insurance premiums paid by employers and families be counted "on budget." Regardless of what I may think of that view, isn't the real question whether the "on budget" decision affects the substantive elements of the Health Security Act:

- The guarantee for every American that they will always have comprehensive, private health insurance.
- The reductions in health care inflation that your numbers confirm.
- The expansion in prescription drug coverage for Medicare beneficiaries.
- Reductions in the long term budget deficit.
- Savings for employers and families.

Are any of these provisions of the Health Security Act threatened in any way by the "on budget" treatment of premiums?