

22. HEALTH

Table 22-1. FEDERAL RESOURCES IN SUPPORT OF HEALTH

(In millions of dollars)

Function 550	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	23,303	25,045	25,070	25,123	25,139	25,154	25,170
Mandatory Outlays:							
Existing law	96,806	103,541	109,601	116,321	124,764	134,621	145,107
Proposed legislation		39	3,940	3,669	2,059	-175	-4,998
Credit Activity:							
Direct loan disbursements	25	20					
Guaranteed loans	210	274	105	6			
Tax Expenditures:							
Existing law	72,745	79,245	85,095	91,185	97,255	103,675	110,445
Proposed legislation		8	19	12	3	3	1

The Federal Government helps meet America's health care needs by directly providing health care services, by promoting disease prevention and consumer and occupational safety, by conducting and supporting research, and by training and helping to train the Nation's health care work force. All together, the Federal Government will spend about \$138 billion in 1998, and allocate \$85 billion in tax incentives.

President Johnson and Congress created Medicaid in 1965 to provide health insurance for the low-income elderly and the poor. Since then, the Nation's leaders have expanded the program from time to time to meet emerging needs. In 1986, for instance, they answered public concerns about high infant mortality rates and the decline in private insurance coverage by expanding Medicaid coverage for prenatal and child health services.

In addition, the Federal Government helps to expand health care coverage to those with which it has a special obligation (including veterans, uniformed military personnel, and American Indians and Alaska Natives), and conducts and sponsors vital biomedical research that would not otherwise take place.

Together, all of these Federal activities have helped to extend life expectancy, cut the infant mortality rate to historic lows, level the death rate among those with HIV/AIDS, and make other progress.

Health Care Services

Of the estimated \$138 billion in Federal health care outlays in 1998¹, 89 percent finances or supports direct health care services to individuals.

Medicaid: This Federal-State health care program served about 37 million low-income Americans in 1996—with the Federal Government spending \$92 billion (57 percent of the total), while States spent \$70 billion (43 percent). States that participate in Medicaid must cover several categories of eligible people, including certain low-income elderly, people with disabilities, low-income women and children, and several mandated services, including hospital care, nursing home care, and physician services. States also may cover optional populations and services. Under current law, Federal experts expect total Medicaid spending to

¹ Excluding Medicare and the military and veterans medical programs.

grow an average of 7.2 percent a year from 1997 to 2002.

Medicaid covers a fourth of the Nation's children and is the largest single purchaser of maternity care as well as of nursing home services and other long-term care services; the program covers almost two-thirds of nursing home residents. The elderly and disabled made up only 30 percent of Medicaid beneficiaries in 1995, but accounted for 61 percent of spending on benefits. Adults and children made up 70 percent of recipients, but accounted for only 25 percent of spending on benefits. Medicaid serves at least half of all adults living with AIDS (and up to 90 percent of children with AIDS), and is the largest single payor of direct medical services to adults living with AIDS.

States increasingly rely on managed care arrangements to provide health care through Medicaid, with enrollment in such arrangements rising from 7.8 million in 1994 to 11.6 million (about a third of all recipients) in 1995.

Other Health Care Services: The Department of Health and Human Services (HHS) supplements Medicare (discussed in Chapter 23) and Medicaid with a number of "gap-filling" grant activities to support health services for low-income or specific populations, including Consolidated Health Center grants; Ryan White AIDS treatment grants; the Maternal and Child Health block grant; Family Planning; and the Substance Abuse block grant. In addition, the Indian Health Service (IHS) provides direct care to 1.4 million American Indians and Alaskan Natives as part of the Federal Government's trust obligations. The IHS system, located primarily on or near reservations, includes 49 hospitals, 190 health centers, and almost 300 other clinics.

Prevention Services: Prevention can go a long way to improve American's health. Measures to protect public health can be as basic as providing good sanitation and as sophisticated as preventing bacteria from developing resistance to antibiotics. State and local health departments traditionally lead such efforts, but the Federal Government—through HHS' Centers for Disease Control and Prevention—also provides financial and technical support. For a half-century, CDC has worked with

State and local governments to prevent syphilis and eliminate smallpox and other communicable diseases. More recently, CDC has focused its efforts on preventing a host of diseases, including breast cancer, prostate cancer, lead poisoning among children, and HIV/AIDS.

National Institutes of Health (NIH): NIH is among the world's foremost biomedical research centers and the Federal focal point for biomedical research in the United States. NIH research is designed to gain knowledge to help prevent, detect, diagnose, and treat disease and disability. NIH conducts research in its own laboratories and clinical facilities; supports research by non-Federal scientists in universities, medical schools, hospitals, and research institutions across the Nation and around the world; helps train research investigators; and fosters communication of biomedical information.

At any one time, NIH supports 35,000 grants to universities, medical schools, and other research and research training institutions. It also conducts over 2,000 projects in its own laboratories and clinical facilities. NIH research has helped to achieve many of the Nation's most important public health advances, such as reducing mortality from heart disease, the Nation's number one killer, by four percent from 1971 to 1991; reducing death rates from stroke by 59 percent over the same period; and increasing the five-year survival rate for people with cancer to 52 percent. Recent NIH-sponsored research has generated significant advances in treatments for individuals infected with HIV, medications for Alzheimer's disease, and revolutionary innovations in molecular genetics and genomics research.

Food and Drug Administration: The Food and Drug Administration (FDA) spends about \$1 billion a year to promote public health by helping to ensure—through pre-market review and post-market surveillance—that foods are safe, wholesome, and sanitary; human and veterinary drugs, biological products, and medical devices are safe and effective; and cosmetics and electronic products that emit radiation are safe. FDA also helps the public gain access to important new life-saving drugs, biological products, and medical devices. It leads Federal efforts to ensure the timely review of products

and ensure that regulations enhance public health, not serve as an unnecessary regulatory burden. In addition, the FDA supports research, consumer education, and the development of both voluntary and regulatory measures to ensure the safety and efficacy of drugs, medical devices, and foods.

Food Safety and Inspection Service (FSIS): FSIS inspects the Nation's meat, poultry, and egg products, ensuring that they are safe, wholesome, and not adulterated. With annual funding of almost \$600 million, agency staff inspect all domestic livestock and poultry in slaughter plants, and conduct at least daily inspections of meat, poultry, and egg product processing plants. In 1996, FSIS issued a major regulation that will begin to shift responsibility for ensuring meat and poultry safety from FSIS to the industry. The regulation should allow FSIS to better target its inspection resources to the higher-risk elements of the meat and poultry production, slaughter, and marketing processes.

Federal Employees Health Benefits Program (FEHBP): Established in 1960, the FEHBP is America's largest employer-sponsored multiple-choice health program, providing \$17 billion in comprehensive hospital and major medical benefits a year to about 9.6 million Federal workers, annuitants, and their dependents. About 86 percent of all eligible Federal employees participate in the FEHBP, and they select from nearly 400 health insurance carriers that offer a broad choice of delivery systems. The FEHBP offers full coverage upon enrollment—without medical examinations or restrictions based on age, current health, or pre-existing condition.

Veterans' Health Care

With a proposed 1998 health budget of \$17.5 billion (including receipts), the Department of Veterans Affairs (VA) provides health care services to 2.9 million veterans through its national system of 22 integrated health networks, consisting of 173 hospitals, 491 outpatient clinics, 135 nursing homes, and 40 domiciliaries². VA is an important part of the Nation's social safety net because almost half of its patients are low-income

veterans who might not otherwise receive care. It also is a leading health care provider for veterans with substance abuse problems, mental illness, HIV/AIDS, and spinal cord injuries because private insurance usually does not fully cover these illnesses.

VA's core mission is to meet the health care needs of veterans who have compensable service-connected injuries or very low incomes. The law makes these "core" veterans the highest priority for available Federal dollars for health care. But, VA may provide care to lower-priority veterans if resources allow and if the needs of higher-priority veterans have been met.

In recent years, VA has reorganized its field facilities from 173 largely independent medical centers into 22 Veterans Integrated Service Networks charged with giving veterans the full continuum of care. VA also has won legislation easing restrictions on its ability to contract for care and share resources with Defense Department hospitals, state facilities, and local health care providers.

Health Research: VA's research program, for which the budget proposes \$234 million in 1998, conducts basic, clinical, epidemiological, and behavioral studies across the entire spectrum of scientific disciplines. The program seeks to improve the medical care and health of veterans, and enhance the Nation's knowledge of disease and disability.

Health Care Education and Training: The Veterans Health Administration is the Nation's largest trainer of health care professionals. About 108,000 students a year get some or all of their training in VA facilities through affiliations with over 1,000 educational institutions. The program provides training to medical, dental, nursing, and associated health professions students to support VA and national work force needs.

Defense Department Health Care

The Defense Department (DOD) has two basic, related medical missions: (a) provide, and be ready to provide, medical services and support to the armed forces during military operations, and (b) provide peacetime medical services to members of the armed

²Domiciliaries serve homeless veterans and veterans who require short-term rehabilitation.

forces, their dependents, and other beneficiaries entitled to DOD health care.

The Defense Health Program (DHP) utilizes over 100,000 military members and 43,000 civilians in 115 hospitals and 471 clinics world-wide to provide medical and dental services. DOD beneficiaries also receive medical care from private health professionals under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) medical insurance program, and its managed care component, TRICARE.

About 8.2 million people across the world are eligible for benefits from DOD's health system. DHP's annual direct costs, including operations and procurement, are about \$10.2 billion; personnel costs add another \$5.2 billion.

DOD's medical research and development (R&D) program funds activities ranging from basic and applied research through development on health issues unique to deployed military forces. The program works to develop vaccines against diseases endemic to countries outside of the U.S.; field-deployable blood products, blood substitutes, and resuscitation fluids; technologies for assessing and treating massive hemorrhage and severe trauma; and methods to prevent injury during military operations. The budget also proposes \$25 million in 1998 for HIV R&D.

Regulatory and Administrative Issues

The sheer size and market share of Medicare and Medicaid significantly affects the private

health care market. Medicare and Medicaid's coverage, reimbursement, quality of care, and information policies frequently become the accepted standards for the private sector over time. In addition, the Federal Government monitors Medicare and Medicaid's regulation of quality of care and reporting and record-keeping requirements for health facilities in order to evaluate possible additional costs on privately-insured individuals, private health care providers, and State and local governments.

Tax Incentives

Federal tax laws help finance health insurance. First, employer contributions for workers' health insurance premiums are excluded from workers' taxable income. Second, self-employed people may deduct a certain percent (30 percent in 1996, rising to 80 percent in 2006 and beyond) of what they pay for health insurance for themselves, their spouses, and their dependents. Third, individuals who itemize may deduct certain expenses for health care—such as insurance premiums that employers do not pay; expenses to diagnosis, treat, or prevent disease; and expenses for certain long-term care services and insurance policies—to the extent that these expenses exceed 7.5 percent of the individuals' adjusted gross income. Total health-related tax incentives (including other minor provisions) will reach an estimated \$85 billion in 1998, and \$487.7 billion from 1998 to 2002.