V. CREATING OPPORTUNITY, DEMANDING RESPONSIBILITY, AND STRENGTHENING COMMUNITY

1. STRENGTHENING HEALTH CARE

We can, and we must, work together to reform Medicare and Medicaid so they continue to meet the promise to our parents and our children and continue to expand health care step by step to children in working families who don't have it. We can do that and balance the budget, and take advantage of the fact that new models are clearly making it possible to lower the rate of medical inflation in a way that advances the quality of health care as well as the quality of our long-term objectives in balancing the budget and investing in the future of America. I know it can be done, and I am determined to get it done.

President Clinton
December 11, 1996

Americans have good reason to be optimistic about the Nation's health care as we approach the new millennium.

Medicare ensures that older Americans receive high quality health care and can look forward to a longer life expectancy. Medicaid provides vital health services to low-income pregnant women and children, people with disabilities, and elderly Americans. Together, Medicare and Medicaid serve over 71 million Americans. Meanwhile, the Federal Government is investing more in biomedical research and technology, furthering our knowledge about the prevention and treatment of diseases and providing new insights into the genetic basis of diseases such as breast cancer as well as threats from food-borne illnesses newly emerging infectious diseases.

And just in the past year, we have witnessed the rapid development of new prescription drugs to help people with AIDS and other debilitating diseases. These new developments hold the potential for a vastly increased life expectancy for these Americans.

Our private health system, already the world's most dynamic, is undergoing a dramatic transformation—much of it positive. The best private sector innovations have helped make our delivery system more efficient, and have improved quality by increasing consumer choice, stressing accountability, and focusing on medical outcomes.

In his first term, the President and Congress took important steps to improve our Nation's health care system. One of the most significant was last year's passage of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), also known as the Kassebaum-Kennedy bill. Now, as many as 25 million Americans have health benefit portability they did not have before; no longer will people who have been sick have to fear that they will lose their access to health insurance if they lose their job or change jobs. Nor can they be denied coverage because they have a preexisting medical condition. Moreover, the law requires insurance companies to sell coverage to small employer groups and to individuals who lose group coverage without regard to their health status. It also made it easier and cheaper for self-employed people to get health insurance, simplified health care paperwork, strengthened Medicare's fraud and abuse efforts, and helped make long-term care insurance more affordable.

Other significant health care initiatives enacted in the last four years include laws requiring health plans to allow new mothers and their babies to remain in the hospital at least 48 hours following most deliveries, and prohibiting health plans from establishing separate lifetime and annual limits for mental health coverage.

With this budget, the President takes the next critical steps toward a better health care future:

- Preserving Medicare and Medicaid, while reforming and strengthening both programs in important ways.
- Helping the growing numbers of American children and families who lack health insurance coverage.
- Strengthening the health care infrastructure by investing more in biomedical research, in programs to combat infectious diseases, in the Ryan White AIDS program that provides life-extending drug therapies to many people with AIDS, and in programs such as community health centers and Indian Health Service facilities that serve critically underserved populations.

Preserving Medicare

The budget preserves and improves Medicare, extending the life of the Part A Hospital Insurance Trust Fund into 2007. Like the President's previous two budgets, it gives beneficiaries more choices among private health plans, makes Medicare more efficient and responsive to beneficiary needs, slows the growth rate of provider payments, and maintains the Part B Supplementary Medical Insurance premium at 25 percent of program costs. The plan saves $100 billion over five years (and $138 billion over six years), according to the Health Care Financing Administration's Office of the Actuary.

The President also wants to work with Congress on a bipartisan basis to address the longer-term problem of financing Medicare to support the health care needs of the "baby boom" generation.

Provider Payment Reforms and Program Savings

- *Hospitals:* The budget reduces the annual inflation increase, or "update," for hospitals; reduces payments for hospital capital; reforms payments for graduate medical education; and begins to reform the payment methodology for outpatient departments while protecting beneficiaries from increasing charges for those services.
- *Managed Care:* Along with the Administration's previous proposals to reduce the current geographic variation in payments, the budget proposes a new managed care payment methodology in light of substantial evidence that Medicare pays too much for managed care plans and, in fact, loses money for every beneficiary who opts for managed care. The budget would reduce Medicare reimbursement to managed care plans from its current rate of 95 percent of fee-for-service rates to 90 percent. To enable the industry to prepare for this change, the Administration would not implement it until the year 2000. The Administration views this reform as a first step and will continue to work with the industry to create a better reimbursement mechanism for Medicare managed care plans.
- *Physicians:* The budget reforms physician payments by paying a single update for all physician services—based on a single "conversion factor," or base payment amount, and replacing the current three conversion factors, effective January 1, 1998. The budget replaces current "volume performance standards" with a sustainable growth rate.
- *Home Health Agencies/Skilled Nursing Facilities:* The budget implements payment reforms, leading to separate prospective payment systems for home health care and skilled nursing facilities. Prospective payments would begin to bring the current double-digit rise in spending on these services under control. The budget also proposes to reform the home health benefit by paying for services following a hospital stay from the Part A Trust Fund and paying for other services from Medicare's Part B Trust Fund. Beneficiaries would not be affected by the change. In addition, the change will not count towards the budget's proposed $100 billion in Medicare savings through 2002, but will help to extend the solvency of the Part A Trust Fund.
- *Other Providers:* The budget makes payments for durable medical equipment and laboratory services more consistent with private market rates and reduces payment updates to ambulatory surgical centers. The budget also proposes to address Medicare's overpayment for prescription drugs that are provided in a physician's office

by making payments more competitive with what private purchasers pay.

- *Beneficiaries:* The budget continues, but does not increase, the requirement that beneficiaries pay 25 percent of Part B costs through the monthly Part B premium. The budget imposes no new cost increases on beneficiaries. The budget also would maintain current law to prevent "balance billing," ensuring that doctors in the new managed care plan options may not charge above Medicare's approved amount and leave the elderly vulnerable to higher costs.
- *Private Plan Choices:* The budget increases the numbers of plans—including Preferred Provider Organizations and Provider Sponsored Networks—available to seniors and people with disabilities. These new options will meet strong quality standards and include consumer protections. The plans would be required to compete on cost and quality, not on the health status of enrollees.

Beneficiary Improvements

The budget proposes reforms to improve and increase services to beneficiaries, to protect them from the burden of additional costs, and to offer them a wider choice of private plans.

- *Preventive Health Care:* The budget covers new preventive health benefits including: colorectal screening; diabetes management; preventive injections like pneumonia, influenza, and hepatitis B; and annual mammograms without coppayments.
- *Alzheimer's Respite Benefit:* The budget establishes a new respite benefit for the families of Medicare beneficiaries with Alzheimer's disease. Medicare beneficiaries would be eligible to receive non-medical care, giving family members a much-needed break from the constant demands of caring for them.
- *Outpatient Department Payments:* Payments to hospitals for outpatient services are one of Medicare's fastest growing components. Due to flaws in the current reimbursement methodology, hospital outpatient departments get a reimbursement higher than their actual costs. In effect, beneficiaries pay about a 50-percent copayment for hospital outpatient services, as opposed to the 20-percent copayment made for other Part B services. Medicare's payments are not always reduced to account fully for these high copayments. The budget corrects these flaws by establishing a prospective payment system for outpatient services and ensuring that, by 2007, beneficiaries pay the same 20-percent copayment as they do for other Part B services.
- *Medigap Protections:* The budget adds protections, such as new open enrollment requirements and prohibitions against the use of pre-existing condition exclusions, to help Medicare beneficiaries who wish to opt for managed care but fear they will be "locked in" and unable to access their old Medigap protections if they switch back to a fee-for-service plan.
- *The Working Disabled:* The budget proposes a Medicare demonstration project to encourage Social Security Disability Insurance (SSDI) beneficiaries to return to work. Under the four-year, Nation-wide demonstration project, SSDI beneficiaries who return to work beginning in 1998 would receive Part A coverage through 2001 without paying the premiums.

Additional High-Priority Initiatives

The budget contains other reforms to improve the Medicare program as well as adjustments to Medicare payments to ensure that rural beneficiaries have access to health care services.

- *Rural Health Care:* The budget would expand access to, and improve the quality of, health care in rural areas. It would extend the Rural Referral Center program; allow direct Medicare reimbursement for nurse practitioners, clinical nurse specialists, and physician assistants; improve the Sole Community Hospital program; expand the Rural Primary Care Hospital program; and provide grants to promote telemedicine and rural health outreach. The proposed changes in managed care payment methodology also would promote access to managed care plans in rural areas.

- *Fraud and Abuse:* The budget proposes strong fraud and abuse provisions, including measures to eliminate fraud in home health care—such as by ensuring that home health agencies are reimbursed based on the location of the service, not the billing office, and by enabling the Secretary of Health and Human Services to deny payments for excessive home health use. The budget also would repeal several provisions in last year's HIPAA law that weakened anti-fraud enforcement. Together, these initiatives would save about $9 billion.

Strengthening Medicaid

The budget would reform Medicaid to give States much more flexibility to manage their programs, while preserving the guarantee of high-quality health care and long-term services for the most vulnerable Americans—millions of children, pregnant women, people with disabilities, and older Americans. The budget would ensure that as we control the costs of Medicaid, we do not compromise what is right with the program.

The growth in Medicaid spending has slowed significantly over the past two years. The budget, however, ensures that our success in bringing Medicaid spending under control will not be lost in future years, when the actuaries project that Medicaid spending will again begin to rise. The budget would save $22 billion from a combination of policies to impose a per capita limit on spending and reduce Disproportionate Share Hospital (DSH) payments and retarget them to hospitals that serve large numbers of Medicaid and low-income patients. The budget also makes a number of improvements to the Medicaid program, including changes to last year's welfare reform law, costing $13 billion over the same period.

Program Savings

- *Per Capita Cap:* Even though the growth in Medicaid spending has fallen in recent years, aggregate Medicaid spending still will grow at an average annual rate of 7.2 percent from 1997 to 2002. To ensure that Medicaid's explosive growth of the 1980s and early 1990s does not resume, the budget would set a per capita cap on Medicaid spending, based on spending per beneficiary in a base year, increased by an annual growth limit. The cap protects States facing population growth or economic downturns because it ensures that dollars follow people, allowing Medicaid spending to respond to changes in caseload and the economy.
- *Disproportionate Share Hospital Payments:* Medicaid DSH spending doubled each year from 1988 to 1993. Although this rapid growth has slowed, due to 1993 legislation that modified the program, the DSH program is still large, and the payments could be targeted better. The budget proposes reforms to reach this goal without undermining the important role these funds play for providers who serve a disproportionate number of low-income and Medicaid beneficiaries.

Provisions to Increase State Flexibility

The budget continues the President's strong commitment to giving States the flexibility to design their own Medicaid program. The budget would ensure accountability for high-quality health care while enabling States to develop programs that meet the special needs of their populations.

- *Coverage for Children:* The budget would let States provide continuous coverage for one year after eligibility is determined, guaranteeing more stable coverage for children and more continuity of health care services. In addition, it will reduce the administrative burden on Medicaid officials, health care providers, and families required to refile paperwork to determine their children's eligibility.
- *Coverage Without Waivers:* The budget would let States, without a waiver, expand coverage to any person whose income is under 150 percent of the poverty line, within their per-capita spending limits.
- *Managed Care:* The budget would allow States to enroll people in managed care without Federal waivers.
- *Home- and Community-based Care:* The budget would allow States to serve people needing long-term care in home- and com-

munity-based settings without Federal waivers.

- *Boren Amendment:* The budget would repeal the "Boren amendment" for hospitals and nursing homes, giving States more flexibility to negotiate provider payment rates.
- *The Working Disabled:* The budget would let States establish an income-related premium buy-in program under Medicaid for people with disabilities who work. It would let eligible Supplemental Security Income beneficiaries who earn more than certain amounts purchase Medicaid coverage by paying a premium that States would set on an income-related sliding scale.

Maintaining and Expanding Coverage for Working Families

The President's budget plan would help an estimated 3.2 million families, including 700,000 children, keep their health care coverage for to six months up until their breadwinners find new jobs. The budget also would help provide health coverage for millions of children who do not now have it. Finally, the budget proposes to help States to create voluntary health insurance purchasing cooperatives.

Health Insurance for the Families of Workers Who are In-Between Jobs

While unemployment remains low and job creation remains high, the fast-moving economy creates rapid job turnover and job elimination. An estimated one in four workers will make an unemployment claim at least once in four years.

With health care coverage in this country usually linked to employment, many workers lose their health care coverage during these brief periods of unemployment. Nearly half of workers with one or more job interruptions experienced at least a month without health insurance between 1992 and 1995. Nearly half of children who lose their health insurance do so because of a change in their parent's employment status. A family experiencing a catastrophic illness during this transition loses the benefit of years' worth of premiums. Worse, for families with an ill child or a worker with a chronic condition, the loss of health insurance while their breadwinner is between jobs can make it financially impossible for them to regain coverage.

The budget proposes a national demonstration program to help States finance up to six months of coverage for the unemployed and their families. The program would be available to recipients, based on need, who had employer-based coverage in their prior jobs. Eligible individuals and their families would have access to a policy generally equivalent to the Blue Cross/Blue Shield Standard Option plan available through the Federal Employees Health Benefits program. The plan gives States flexibility to administer their own programs (e.g., through Medicaid, COBRA, or an independent program). It would cost $1.7 billion in 1998, $9.8 billion from 1998 to 2002.

Health Coverage for Children

The budget proposes several measures to expand health care coverage to more children. Combined with the proposal to help the families of unemployed workers (discussed above), and the ongoing phase-in of Medicaid coverage for a million older children, these additional proposals could add coverage for as many as five million children. The President is pleased with the widespread congressional interest in expanding health care coverage for children, and he looks forward to working with both Democrats and Republicans to develop and implement proposals to reach that goal.

- *State Grants to Develop Innovative Programs:* The budget provides $750 million a year in grants to States ($3.8 billion from 1998 to 2002) to build on recent State successes in working with insurers, providers, employers, schools, and others to develop innovative ways to provide coverage to children. This proposal would cover an estimated one million children.
- *Continuous Medicaid Coverage to Children:* The budget provides funds to let States extend one year of continuous Medicaid coverage to children, potentially helping one million children who would otherwise have lost coverage to keep it. The proposal would reduce administrative bur-

dens on States, families, and health care plans who now must determine eligibility at least every six months.

- *Medicaid Outreach:* About three million children are now eligible for Medicaid, but not enrolled. The Administration will ask the Nation's Governors to work with us to find ways to reach and sign up such children.
- *School Health Centers and Consolidated Health Centers (CHCs):* The budget provides more funds for CHCs to expand and enhance services to working families and their children through school-based health clinics.

Voluntary Purchasing Cooperatives

Employees in small businesses and their families are far likelier to be uninsured than other Americans. Small businesses have more difficulty providing health care coverage for their workers because they have higher per capita costs due to increased risk and extraordinarily high administrative costs.

The budget would make it easier for small businesses to provide health care coverage for their employees, by helping them to band together to reduce their risks, lower their administrative costs, and improve their purchasing power with insurance companies. The budget proposes to empower small businesses to access and purchase more affordable health insurance through voluntary health purchasing cooperatives—providing $25 million a year in grants that States can use for technical assistance, and setting up voluntary purchasing cooperatives and allowing them to access Federal Employees Health Benefit Plans.

Promoting Public Health

The budget invests in preventive steps that show the greatest promise of ameliorating pain and suffering while controlling future costs. In particular, the budget focuses on preventing teen smoking; substance abuse; teen pregnancy; the spread of AIDS and HIV infections; food-borne diseases; the spread of infectious diseases; and infant mortality. The budget also invests in health care services for low-income and other vulnerable populations, such as American Indians and Alaska Natives.

Expanding Biomedical and Behavioral Research

The budget continues the Administration's longstanding commitment to biomedical and behavioral research, which advances the health and well-being of all Americans. For the National Institutes of Health (NIH), it proposes $13.1 billion for biomedical research that would lay the foundation for future innovations that improve health and prevent disease. The budget includes funding for high-priority research areas such as HIV/AIDS (including efforts to develop an AIDS vaccine), breast cancer, spinal cord injury, high performance computing, prevention and genetic medicine.

The Office of AIDS Research will continue to coordinate all of NIH's AIDS research. The budget also includes the second year of funding for a new NIH Clinical Research Center, which would give NIH a state-of-the-art research facility in which researchers would bring the latest discoveries directly to patients' bedsides. NIH's top priority continues to be financing investigator-initiated research project grants.

Providing Direct Services and Preventive Care to Special Populations

While basic biomedical research lays the foundation for medical advances, direct health services and prevention activities reduce the cost of medical care, and directly benefit Americans by preventing disease outbreaks and promoting the population's health. The budget proposes funding increases for the following health service and prevention activities:

- *Preventing and Treating AIDS through Ryan White HIV/AIDS Treatment Grants/ HIV Prevention:* The budget proposes just over $1 billion for activities authorized by the Ryan White CARE Act, $40 million more than in 1997, to help our most hard-hit cities, States, and local clinics provide medical and support services to individuals with HIV/AIDS. Under this Administration, funding for Ryan White grants has risen by 158 percent. The proposed level

would fund grants to cities and States to help finance medical and support services for individuals infected with the HIV virus; to community-based clinics to provide HIV early intervention services; to pediatric AIDS and HIV dental activities; and to HIV education and training programs for health care providers. The budget also includes $167 million dedicated to State AIDS drug assistance programs funded under Title II of the Ryan White Care act, to improve access to protease inhibitors and other life-extending AIDS medications. The budget also proposes $637 million for the Centers for Disease Control's (CDC) HIV prevention activities, $20 million more than in 1997. The increased funding will help prevent HIV among drug users, who face the greatest risk of HIV infection.

- *Reducing Tobacco Use Among Young People:* Tobacco is linked to over 400,000 deaths a year from cancer, respiratory illness, heart disease, and other health problems. Each year, another million young people become regular smokers, and over 300,000 of them will die earlier as a result. Consequently, in August 1996, the Administration approved an FDA regulation that aims to cut tobacco use among young people by half over seven years; the budget includes $34 million to implement the regulation. The budget also provides $36 million for the CDC and $50 million for NIH for State grants and technical support for tobacco control and cancer prevention activities.

- *Enhancing Food Safety:* Too many Americans get sick from preventable food-borne diseases. The Nation faces new challenges in this area as we enter the 21st Century. New pathogens are emerging and familiar pathogens have grown resistant to treatment. We consume record levels of imported foods, some of which moves across the globe overnight. The budget proposes $42 million for a new interagency food safety initiative to establish a national early warning system for food-borne illnesses Nation-wide, and to improve Federal-State coordination when food-borne disease outbreaks occur. The budget also proposes to continue implementing a new food safety system in the meat, poultry, and seafood industries.

- *Promoting Full Participation in Women, Infants, and Children (WIC):* WIC reaches over seven million women, infants, and children a year, providing nutrition assistance, nutrition education and counseling, and health and immunization referrals. WIC provides prenatal care to those who would not otherwise get it, while reducing the incidence of premature birth and infant death. As a result, Medicaid saves significant sums that it would otherwise spend in the first 60 days after childbirth. Because of funding increases in the last four years, WIC participation has grown by over 25 percent. The budget proposes $4.1 billion to serve 7.5 million people by the end of 1998, fulfilling the President's goal of full participation in WIC.

- *Promoting Childhood Immunizations:* The budget proposes $794 million for the Childhood Immunization Initiative, including the Vaccines for Children program and CDC's discretionary immunization program. The Nation is ahead of schedule to meet the Administration's goal of raising immunization rates to 90 percent for two-year old children for each basic childhood vaccine. The incidence of vaccine-preventable diseases among children, such as diphtheria, tetanus, measles, and polio, are at all-time lows. The budget also includes $47 million to eradicate polio—preventable through immunizations—throughout the world.

- *Improving Substance Abuse Treatment and Prevention:* The budget proposes to increase support for the Substance Abuse and Mental Health Services Administration's substance abuse treatment and prevention activities by $33 million, to $1.7 billion, enabling hundreds of thousands of pregnant women, high-risk youth, and other under-served Americans to get drug treatment and prevention services. The budget proposes a coordinated approach to combating substance abuse among youth with a comprehensive prevention initiative, focusing on State-level data documenting trends in drug use. The Administration again calls on Congress to enact

Performance Partnerships, which would give States more flexibility to better target Federal resources to priorities.

- *Enhancing Abstinence Education and Family Planning:* For each of the next five years, the budget includes $50 million in mandatory funding for States to conduct abstinence education projects to help reduce out-of-wedlock pregnancies. The budget also includes a $5 million increase, to $203 million, to support voluntary family planning services.

- *Preventing and Containing Infectious Diseases:* The budget includes $103 million, $15 million more than in 1997, for CDC's cooperative efforts with States to address infectious disease. It would support training and applied research, and the States' disease surveillance capability. All Americans face threats from infectious disease problems, such as drug resistant bacteria, and from emerging viruses, such as the hantavirus. CDC works with State health departments to monitor and prevent such problems and to contain outbreaks.

- *Promoting Better Health Care for Native Americans through Indian Health Service (IHS):* The budget proposes $2.4 billion for the IHS, $70 million over 1997. IHS clinical services are often the only source of medical care on remote reservation lands, and this increase maintains our commitment to American Indians and Alaska Natives.

- *Caring for Veteran's Health Needs through Veterans Medical Care:* Continuing its longstanding commitment to veterans programs, the Administration proposes $17.5 billion for the Department of Veterans Affairs' (VA) health system, $0.5 billion more than in 1997. The budget would enable the VA health system to retain, and spend for itself, all first- and third-party medical collections. In the past, these collections have gone to the Treasury; in 1998, they would support health services for veterans. The budget would enable the VA to implement eligibility reform legislation that the President signed in October 1996, and pursue ambitious plans to restructure the health system to better deliver care.