

105TH CONGRESS  
1ST SESSION

# S. 21

To establish a medical education trust fund, and for other purposes.

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IN THE SENATE OF THE UNITED STATES

JANUARY 21, 1997

Mr. MOYNIHAN introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To establish a medical education trust fund, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the  
5 “Medical Education Trust Fund Act of 1997”.

6 (b) TABLE OF CONTENTS.—The table of contents of  
7 this title is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Medical Education Trust Fund.
- Sec. 3. Amendments to medicare program.
- Sec. 4. Amendments to medicaid program.
- Sec. 5. Assessments on insured and self-insured health plans.
- Sec. 6. Medical Education Advisory Commission.
- Sec. 7. Demonstration projects.

1 **SEC. 2. MEDICAL EDUCATION TRUST FUND.**

2 The Social Security Act (42 U.S.C. 300 et seq.) is  
3 amended by adding after title XX the following new title:

4 “TITLE XXI—MEDICAL EDUCATION TRUST  
5 FUND

6 “TABLE OF CONTENTS OF TITLE

“Sec. 2101. Establishment of Trust Fund.

“Sec. 2102. Payments to medical schools.

“Sec. 2103. Payments to teaching hospitals.

7 **“SEC. 2101. ESTABLISHMENT OF TRUST FUND.**

8 “(a) IN GENERAL.—There is established in the  
9 Treasury of the United States a fund to be known as the  
10 Medical Education Trust Fund (in this title referred to  
11 as the ‘Trust Fund’), consisting of the following accounts:

12 “(1) The Medical School Account.

13 “(2) The Medicare Teaching Hospital Indirect  
14 Account.

15 “(3) The Medicare Teaching Hospital Direct  
16 Account.

17 “(4) The Non-Medicare Teaching Hospital In-  
18 direct Account.

19 “(5) The Non-Medicare Teaching Hospital Di-  
20 rect Account.

21 Each such account shall consist of such amounts as are  
22 allocated and transferred to such account under this sec-  
23 tion, sections 1876(a)(7), 1886(j) and 1931, and section

1 4503 of the Internal Revenue Code of 1986. Amounts in  
2 the accounts of the Trust Fund shall remain available  
3 until expended.

4 “(b) EXPENDITURES FROM TRUST FUND.—  
5 Amounts in the accounts of the Trust Fund are available  
6 to the Secretary for making payments under sections 2102  
7 and 2103.

8 “(c) INVESTMENT.—

9 “(1) IN GENERAL.—The Secretary of the  
10 Treasury shall invest amounts in the accounts of the  
11 Trust Fund which the Secretary determines are not  
12 required to meet current withdrawals from the Trust  
13 Fund. Such investments may be made only in inter-  
14 est-bearing obligations of the United States. For  
15 such purpose, such obligations may be acquired on  
16 original issue at the issue price, or by purchase of  
17 outstanding obligations at the market price.

18 “(2) SALE OF OBLIGATIONS.—The Secretary of  
19 the Treasury may sell at market price any obligation  
20 acquired under paragraph (1).

21 “(3) AVAILABILITY OF INCOME.—Any interest  
22 derived from obligations held in each such account,  
23 and proceeds from any sale or redemption of such  
24 obligations, are hereby appropriated to such account.

1       “(d) MONETARY GIFTS TO TRUST FUND.—There are  
 2 appropriated to the Trust Fund such amounts as may be  
 3 unconditionally donated to the Federal Government as  
 4 gifts to the Trust Fund. Such amounts shall be allocated  
 5 and transferred to the accounts described in subsection  
 6 (a) in the same proportion as the amounts in each of the  
 7 accounts bears to the total amount in all the accounts of  
 8 the Trust Fund.

9       **“SEC. 2102. PAYMENTS TO MEDICAL SCHOOLS.**

10       “(a) FEDERAL PAYMENTS TO MEDICAL SCHOOLS  
 11 FOR CERTAIN COSTS.—

12               “(1) IN GENERAL.—In the case of a medical  
 13 school that in accordance with paragraph (2) sub-  
 14 mits to the Secretary an application for fiscal year  
 15 1998 or any subsequent fiscal year, the Secretary  
 16 shall make payments for such year to the medical  
 17 school for the purpose specified in paragraph (3).

18       The Secretary shall make such payments from the  
 19 Medical School Account in an amount determined in  
 20 accordance with subsection (b), and may administer  
 21 the payments as a contract, grant, or cooperative  
 22 agreement.

23               “(2) APPLICATION FOR PAYMENTS.—For pur-  
 24 poses of paragraph (1), an application for payments

1 under such paragraph for a fiscal year is in accord-  
2 ance with this paragraph if—

3 “(A) the medical school involved submits  
4 the application not later than the date specified  
5 by the Secretary; and

6 “(B) the application is in such form, is  
7 made in such manner, and contains such agree-  
8 ments, assurances, and information as the Sec-  
9 retary determines to be necessary to carry out  
10 this section.

11 “(3) PURPOSE OF PAYMENTS.—The purpose of  
12 payments under paragraph (1) is to assist medical  
13 schools in maintaining and developing quality edu-  
14 cational programs in an increasingly competitive  
15 health care system.

16 “(b) AVAILABILITY OF TRUST FUND FOR PAYMENTS;  
17 ANNUAL AMOUNT OF PAYMENTS.—

18 “(1) AVAILABILITY OF TRUST FUND FOR PAY-  
19 MENTS.—The following amounts shall be available  
20 for a fiscal year for making payments under sub-  
21 section (a) from the amount allocated and trans-  
22 ferred to the Medical School Account under sections  
23 1876(a)(7), 1886(j), 1931, 2101 (c)(3) and (d), and  
24 section 4503 of the Internal Revenue Code of 1986:

1           “(A) In the case of fiscal year 1998,  
2           \$200,000,000.

3           “(B) In the case of fiscal year 1999,  
4           \$300,000,000.

5           “(C) In the case of fiscal year 2000,  
6           \$400,000,000.

7           “(D) In the case of fiscal year 2001,  
8           \$500,000,000.

9           “(E) In the case of fiscal year 2002,  
10          \$600,000,000.

11          “(F) In the case of each subsequent fiscal  
12          year, the amount specified in this paragraph in  
13          the previous fiscal year updated through the  
14          midpoint of the year by the estimated percent-  
15          age change in the general health care inflation  
16          factor (as defined in subsection (d)) during the  
17          12-month period ending at that midpoint, with  
18          appropriate adjustments to reflect previous  
19          underestimations or overestimations under this  
20          subparagraph in the projected health care infla-  
21          tion factor.

22          “(2) AMOUNT OF PAYMENTS FOR MEDICAL  
23          SCHOOLS.—

1           “(A) IN GENERAL.—Subject to the annual  
 2           amount available under paragraph (1) for a fis-  
 3           cal year, the amount of payments required  
 4           under subsection (a) to be made to a medical  
 5           school that submits to the Secretary an applica-  
 6           tion for such year in accordance with subsection  
 7           (a)(2) is an amount equal to an amount deter-  
 8           mined by the Secretary in accordance with sub-  
 9           paragraph (B).

10           “(B) DEVELOPMENT OF FORMULA.—The  
 11           Secretary shall develop a formula for allocation  
 12           of funds to medical schools under this section  
 13           consistent with the purpose described in sub-  
 14           section (a)(3).

15           “(c) MEDICAL SCHOOL DEFINED.—For purposes of  
 16           this section, the term ‘medical school’ means a school of  
 17           medicine (as defined in section 799 of the Public Health  
 18           Service Act) or a school of osteopathic medicine (as de-  
 19           fined in such section).

20           “(d) GENERAL HEALTH CARE INFLATION FAC-  
 21           TOR.—The term ‘general health care inflation factor’  
 22           means the consumer price index for medical services as  
 23           determined by the Bureau of Labor Statistics.

1 **“SEC. 2103. PAYMENTS TO TEACHING HOSPITALS.**

2 “(a) FORMULA PAYMENTS TO ELIGIBLE ENTI-  
3 TIES.—

4 “(1) IN GENERAL.—In the case of any fiscal  
5 year beginning after September 30, 1997, the Sec-  
6 retary shall make payments to each eligible entity  
7 that, in accordance with paragraph (2), submits to  
8 the Secretary an application for such fiscal year.  
9 Such payments shall be made from the Trust Fund,  
10 and the total of the payments to the eligible entity  
11 for the fiscal year shall equal the sum of the  
12 amounts determined under subsections (b), (c), (d),  
13 and (e).

14 “(2) APPLICATION.—For purposes of para-  
15 graph (1), an application shall contain such informa-  
16 tion as may be necessary for the Secretary to make  
17 payments under such paragraph to an eligible entity  
18 during a fiscal year. An application shall be treated  
19 as submitted in accordance with this paragraph if it  
20 is submitted not later than the date specified by the  
21 Secretary, and is made in such form and manner as  
22 the Secretary may require.

23 “(3) PERIODIC PAYMENTS.—Payments under  
24 paragraph (1) to an eligible entity for a fiscal year  
25 shall be made periodically, at such intervals and in



1       such amounts as the Secretary determines to be ap-  
2       propriate (subject to applicable Federal law regard-  
3       ing Federal payments).

4               “(4) ADMINISTRATOR OF PROGRAMS.—The Sec-  
5       retary shall carry out responsibility under this title  
6       by acting through the Administrator of the Health  
7       Care Financing Administration.

8               “(5) ELIGIBLE ENTITY.—For purposes of this  
9       title, the term ‘eligible entity’, with respect to any  
10      fiscal year, means—

11              “(A) for payment under subsections (b)  
12              and (c), an entity which would be eligible to re-  
13              ceive payments for such fiscal year under—

14                      “(i) section 1886(d)(5)(B), if such  
15                      payments had not been terminated for dis-  
16                      charges occurring after September 30,  
17                      1997;

18                      “(ii) section 1886(h), if such pay-  
19                      ments had not been terminated for cost re-  
20                      porting periods beginning after September  
21                      30, 1997; or

22                      “(iii) both sections; or

23              “(B) for payment under subsections (d)  
24              and (e)—

1 “(i) an entity which meets the re-  
2 quirement of subparagraph (A); or

3 “(ii) an entity which the Secretary de-  
4 termines should be considered an eligible  
5 entity.

6 “(b) DETERMINATION OF AMOUNT FROM MEDICARE  
7 TEACHING HOSPITAL INDIRECT ACCOUNT.—

8 “(1) IN GENERAL.—The amount determined for  
9 an eligible entity for a fiscal year under this sub-  
10 section is the amount equal to the applicable per-  
11 centage of the total amount allocated and trans-  
12 ferred to the Medicare Teaching Hospital Indirect  
13 Account under sections 1876(a)(7) and 1886(j)(1),  
14 and subsections (c)(3) and (d) of section 2101 for  
15 such fiscal year.

16 “(2) APPLICABLE PERCENTAGE.—For purposes  
17 of paragraph (1), the applicable percentage for any  
18 fiscal year is equal to the percentage of the total  
19 payments which would have been made to the eligi-  
20 ble entity in such fiscal year under section  
21 1886(d)(5)(B) if—

22 “(A) such payments had not been termi-  
23 nated for discharges occurring after September  
24 30, 1997; and

1 “(B) such payments included payments for  
 2 individuals enrolled in a plan under section  
 3 1876, except that for fiscal years 1998, 1999,  
 4 and 2000, only the applicable percentage (as  
 5 defined in section 1876(a)(7)(B)) of such pay-  
 6 ments shall be taken into account.

7 “(c) DETERMINATION OF AMOUNT FROM MEDICARE  
 8 TEACHING HOSPITAL DIRECT ACCOUNT.—

9 “(1) IN GENERAL.—The amount determined for  
 10 an eligible entity for a fiscal year under this sub-  
 11 section is the amount equal to the applicable per-  
 12 centage of the total amount allocated and trans-  
 13 ferred to the Medicare Teaching Hospital Direct Ac-  
 14 count under sections 1876(a)(7) and 1886(j)(2), and  
 15 subsections (c)(3) and (d) of section 2101 for such  
 16 fiscal year.

17 “(2) APPLICABLE PERCENTAGE.—For purposes  
 18 of paragraph (1), the applicable percentage for any  
 19 fiscal year is equal to the percentage of the total  
 20 payments which would have been made to the eligi-  
 21 ble entity in such fiscal year under section 1886(h)  
 22 if—

23 “(A) such payments had not been termi-  
 24 nated for cost reporting periods beginning after  
 25 September 30, 1997; and

1 “(B) such payments included payments for  
 2 individuals enrolled in a plan under section  
 3 1876, except that for fiscal years 1998, 1999,  
 4 and 2000, only the applicable percentage (as  
 5 defined in section 1876(a)(7)(B)) of such pay-  
 6 ments shall be taken into account.

7 “(d) DETERMINATION OF AMOUNT FROM NON-MED-  
 8 ICARE TEACHING HOSPITAL INDIRECT ACCOUNT.—

9 “(1) IN GENERAL.—The amount determined for  
 10 an eligible entity for a fiscal year under this sub-  
 11 section is the amount equal to the applicable per-  
 12 centage of the total amount allocated and trans-  
 13 ferred to the Non-Medicare Teaching Hospital Indi-  
 14 rect Account for such fiscal year under section 1931,  
 15 subsections (c)(3) and (d) of section 2101, and sec-  
 16 tion 4503 of the Internal Revenue Code of 1986.

17 “(2) APPLICABLE PERCENTAGE.—For purposes  
 18 of paragraph (1), the applicable percentage for any  
 19 fiscal year for an eligible entity is equal to the per-  
 20 centage of the total payments which, as determined  
 21 by the Secretary, would have been made in such fis-  
 22 cal year under section 1886(d)(5)(B) if—

23 “(A) such payments had not been termi-  
 24 nated for discharges occurring after September  
 25 30, 1997; and

1                   “(B) non-medicare patients were taken  
2                   into account in lieu of medicare patients.

3           “(e) DETERMINATION OF AMOUNT FROM NON-MED-  
4 ICARE TEACHING HOSPITAL DIRECT ACCOUNT.—

5                   “(1) IN GENERAL.—The amount determined for  
6                   an eligible entity for a fiscal year under this sub-  
7                   section is the amount equal to the applicable per-  
8                   centage of the total amount allocated and trans-  
9                   ferred to the Non-Medicare Teaching Hospital Di-  
10                  rect Account for such fiscal year under section 1931,  
11                  subsections (c)(3) and (d) of section 2101, and sec-  
12                  tion 4503 of the Internal Revenue Code of 1986.

13                  “(2) APPLICABLE PERCENTAGE.—For purposes  
14                  of paragraph (1), the applicable percentage for any  
15                  fiscal year for an eligible entity is equal to the per-  
16                  centage of the total payments which, as determined  
17                  by the Secretary, would have been made in such fis-  
18                  cal year under section 1886(h) if—

19                         “(A) such payments had not been termi-  
20                         nated for cost reporting periods beginning after  
21                         September 30, 1997; and

22                         “(B) non-medicare patients were taken  
23                         into account in lieu of medicare patients.”.

1 **SEC. 3. AMENDMENTS TO MEDICARE PROGRAM.**

2 (a) IN GENERAL.—Section 1886 of the Social Secu-  
3 rity Act (42 U.S.C. 1395ww) is amended—

4 (1) in subsection (d)(5)(B), in the matter pre-  
5 ceding clause (i), by striking “The Secretary shall  
6 provide” and inserting the following: “For dis-  
7 charges occurring before October 1, 1997, the Sec-  
8 retary shall provide”;

9 (2) in subsection (h)—

10 (A) in paragraph (1), in the first sentence,  
11 by striking “the Secretary shall provide” and  
12 inserting “the Secretary shall, subject to para-  
13 graph (6), provide”; and

14 (B) by adding at the end the following new  
15 paragraph:

16 “(6) LIMITATION.—

17 “(A) IN GENERAL.—The authority to  
18 make payments under this subsection shall not  
19 apply with respect to—

20 “(i) cost reporting periods beginning  
21 after September 30, 1997; and

22 “(ii) any portion of a cost reporting  
23 period beginning on or before such date  
24 which occurs after such date.

25 “(B) RULE OF CONSTRUCTION.—This  
26 paragraph may not be construed as authorizing

1           any payment under section 1861(v) with re-  
 2           spect to graduate medical education.”; and  
 3           (3) by adding at the end the following new sub-  
 4           section:

5           “(j) TRANSFERS TO MEDICAL EDUCATION TRUST  
 6 FUND.—

7           “(1) INDIRECT COSTS OF MEDICAL EDU-  
 8 CATION.—

9           “(A) TRANSFER.—

10           “(i) IN GENERAL.—From the Federal  
 11 Hospital Insurance Trust Fund, the Sec-  
 12 retary shall, for fiscal year 1998 and each  
 13 subsequent fiscal year, transfer to the  
 14 Medical Education Trust Fund an amount  
 15 equal to the amount estimated by the Sec-  
 16 retary under subparagraph (B).

17           “(ii) ALLOCATION.—Of the amount  
 18 transferred under clause (i)—

19           “(I) there shall be allocated and  
 20 transferred to the Medical School Ac-  
 21 count an amount which bears the  
 22 same ratio to the total amount avail-  
 23 able under section 2102(b)(1) for the  
 24 fiscal year (reduced by the balance in

1 such account at the end of the preced-  
 2 ing fiscal year) as the amount trans-  
 3 ferred under clause (i) bears to the  
 4 total amounts transferred to the Med-  
 5 ical Education Trust Fund under title  
 6 XXI (excluding amounts transferred  
 7 under subsections (c)(3) and (d) of  
 8 section 2101) for such fiscal year; and  
 9 “(II) the remainder shall be allo-  
 10 cated and transferred to the Medicare  
 11 Teaching Hospital Indirect Account.

12 “(B) DETERMINATION OF AMOUNTS.—The  
 13 Secretary shall make an estimate for each fiscal  
 14 year involved of the nationwide total of the  
 15 amounts that would have been paid under sub-  
 16 section (d)(5)(B) to hospitals during the fiscal  
 17 year if such payments had not been terminated  
 18 for discharges occurring after September 30,  
 19 1997.

20 “(2) DIRECT COSTS OF MEDICAL EDUCATION.—

21 “(A) TRANSFER.—

22 “(i) IN GENERAL.—From the Federal  
 23 Hospital Insurance Trust Fund and the  
 24 Federal Supplementary Medical Insurance  
 25 Trust Fund, the Secretary shall, for fiscal



1 year 1998 and each subsequent fiscal year,  
2 transfer to the Medical Education Trust  
3 Fund an amount equal to the amount esti-  
4 mated by the Secretary under subpara-  
5 graph (B).

6 “(ii) ALLOCATION.—Of the amount  
7 transferred under clause (i)—

8 “(I) there shall be allocated and  
9 transferred to the Medical School Ac-  
10 count an amount which bears the  
11 same ratio to the total amount avail-  
12 able under section 2102(b)(1) for the  
13 fiscal year (reduced by the balance in  
14 such account at the end of the preced-  
15 ing fiscal year) as the amount trans-  
16 ferred under clause (i) bears to the  
17 total amounts transferred to the Med-  
18 ical Education Trust Fund under title  
19 XXI (excluding amounts transferred  
20 under subsections (c)(3) and (d) of  
21 section 2101) for such fiscal year; and

22 “(II) the remainder shall be allo-  
23 cated and transferred to the Medicare  
24 Teaching Hospital Direct Account.

1                   “(B) DETERMINATION OF AMOUNTS.—For  
 2                   each hospital, the Secretary shall make an esti-  
 3                   mate for the fiscal year involved of the amount  
 4                   that would have been paid under subsection (h)  
 5                   to the hospital during the fiscal year if such  
 6                   payments had not been terminated for cost re-  
 7                   porting periods beginning after September 30,  
 8                   1997.

9                   “(C) ALLOCATION BETWEEN FUNDS.—In  
 10                  providing for a transfer under subparagraph  
 11                  (A) for a fiscal year, the Secretary shall provide  
 12                  for an allocation of the amounts involved be-  
 13                  tween part A and part B (and the trust funds  
 14                  established under the respective parts) as rea-  
 15                  sonably reflects the proportion of direct grad-  
 16                  uate medical education costs of hospitals associ-  
 17                  ated with the provision of services under each  
 18                  respective part.”.

19                  (b) MEDICARE HMO’S.—Section 1876(a) of the So-  
 20                  cial Security Act (42 U.S.C. 1395mm(a)) is amended by  
 21                  inserting after paragraph (6) the following new paragraph:

22                  “(7)(A) In determining the adjusted average per cap-  
 23                  ita cost under paragraph (4) for fiscal years after 1997,  
 24                  the Secretary shall not take into account the applicable  
 25                  percentage of costs under sections 1886(d)(5)(B) (indirect

1 costs of medical education) and 1886(h) (direct graduate  
2 medical education costs).

3 “(B) For purposes of subparagraph (A), the applica-  
4 ble percentage is—

5 “(i) for fiscal year 1998, 25 percent;

6 “(ii) for fiscal year 1999, 50 percent;

7 “(iii) for fiscal year 2000, 75 percent; and

8 “(iv) for fiscal year 2001 and each subsequent  
9 fiscal year, 100 percent.

10 “(C)(i) There is appropriated and transferred to the  
11 Medical Education Trust Fund each fiscal year an amount  
12 equal to the aggregate amounts not taken into account  
13 under paragraph (4) by reason of subparagraph (A).

14 “(ii) Of the amounts transferred under clause (i)—

15 “(I) there shall be allocated and transferred to  
16 the Medical School Account an amount which bears  
17 the same ratio to the total amount available under  
18 section 2102(b)(1) for the fiscal year (reduced by  
19 the balance in such account at the end of the pre-  
20 ceding fiscal year) as the amount transferred under  
21 clause (i) bears to the total amounts transferred to  
22 the Medical Education Trust Fund under section  
23 2101 (excluding amounts transferred under sub-  
24 sections (c)(3) and (d) of such section) for such fis-  
25 cal year; and

1           “(II) the remainder shall be allocated and  
 2           transferred to the Medicare Teaching Hospital Indi-  
 3           rect Account under such section and the Medicare  
 4           Teaching Hospital Direct Account under such sec-  
 5           tion in the same proportion as the amounts attrib-  
 6           utable to the costs under sections 1886(d)(5)(B) and  
 7           1886(h) were of the amounts transferred under  
 8           clause (i).

9           “(iii) The Secretary shall make payments under  
 10          clause (i) from the Federal Hospital Insurance Trust  
 11          Fund and the Federal Supplementary Medical Insurance  
 12          Trust Fund, in the same manner as the Secretary deter-  
 13          mines under section 1886(j).”.

14   **SEC. 4. AMENDMENTS TO MEDICAID PROGRAM.**

15          (a) IN GENERAL.—Title XIX of the Social Security  
 16          Act (42 U.S.C. 1396 et seq.) is amended—

17               (1) by redesignating section 1931 as section  
 18               1932; and

19               (2) by inserting after section 1930, the follow-  
 20               ing new section:

21               “TRANSFER OF FUNDS TO ACCOUNTS

22               “SEC. 1931. (a) TRANSFER OF FUNDS.—

23                       “(1) IN GENERAL.—For fiscal year 1998 and  
 24                       each subsequent fiscal year, the Secretary shall  
 25                       transfer to the Medical Education Trust Fund an

1 amount equal to the amount determined under sub-  
 2 section (b).

3 “(2) ALLOCATION.—Of the amount transferred  
 4 under paragraph (1)—

5 “(A) there shall be allocated and trans-  
 6 ferred to the Medical School Account an  
 7 amount which bears the same ratio to the total  
 8 amount available under section 2102(b)(1) for  
 9 the fiscal year (reduced by the balance in such  
 10 account at the end of the preceding fiscal year)  
 11 as the amount transferred under paragraph (1)  
 12 bears to the total amounts transferred to the  
 13 Medical Education Trust Fund under title XXI  
 14 (excluding amounts transferred under sub-  
 15 sections (c)(3) and (d) of section 2101) for  
 16 such fiscal year; and

17 “(B) the remainder shall be allocated and  
 18 transferred to the Non-Medicare Teaching Hos-  
 19 pital Indirect Account and the Non-Medicare  
 20 Teaching Hospital Direct Account, in the same  
 21 proportion as the amounts transferred to each  
 22 account under section 1886(j) relate to the total  
 23 amounts transferred under such section for  
 24 such fiscal year.

25 “(b) AMOUNT DETERMINED.—

1           “(1) OUTLAYS FOR ACUTE MEDICAL SERVICES  
 2 DURING PRECEDING FISCAL YEAR.—Beginning with  
 3 fiscal year 1998, the Secretary shall determine 5  
 4 percent of the total amount of Federal outlays made  
 5 under this title for acute medical services, as defined  
 6 in paragraph (2), for the preceding fiscal year.

7           “(2) ACUTE MEDICAL SERVICES DEFINED.—  
 8 The term ‘acute medical services’ means items and  
 9 services described in section 1905(a) other than the  
 10 following:

11               “(A) Nursing facility services (as defined  
 12 in section 1905(f)).

13               “(B) Intermediate care facility for the  
 14 mentally retarded services (as defined in section  
 15 1905(d)).

16               “(C) Personal care services (as described  
 17 in section 1905(a)(24)).

18               “(D) Private duty nursing services (as re-  
 19 ferred to in section 1905(a)(8)).

20               “(E) Home or community-based services  
 21 furnished under a waiver granted under sub-  
 22 section (c), (d), or (e) of section 1915.

23               “(F) Home and community care furnished  
 24 to functionally disabled elderly individuals  
 25 under section 1929.

1                   “(G) Community supported living arrange-  
2                   ments services under section 1930.

3                   “(H) Case-management services (as de-  
4                   scribed in section 1915(g)(2)).

5                   “(I) Home health care services (as referred  
6                   to in section 1905(a)(7)), clinic services, and re-  
7                   habilitation services that are furnished to an in-  
8                   dividual who has a condition or disability that  
9                   qualifies the individual to receive any of the  
10                  services described in a previous subparagraph.

11                  “(J) Services furnished in an institution  
12                  for mental diseases (as defined in section  
13                  1905(i)).

14                  “(c) ENTITLEMENT.—This section constitutes budget  
15                  authority in advance of appropriations Acts and rep-  
16                  resents the obligation of the Federal Government to pro-  
17                  vide for the payment to the Non-Medicare Teaching Hos-  
18                  pital Indirect Account, the Non-Medicare Teaching Hos-  
19                  pital Direct Account, and the Medical School Account of  
20                  amounts determined in accordance with subsections (a)  
21                  and (b).”.

22                  (b) EFFECTIVE DATE.—The amendment made by  
23                  subsection (a) shall be effective on and after October 1,  
24                  1997.

1 **SEC. 5. ASSESSMENTS ON INSURED AND SELF-INSURED**  
 2 **HEALTH PLANS.**

3 (a) GENERAL RULE.—Subtitle D of the Internal Rev-  
 4 enue Code of 1986 (relating to miscellaneous excise taxes)  
 5 is amended by adding after chapter 36 the following new  
 6 chapter:

7 **“CHAPTER 37—HEALTH RELATED**  
 8 **ASSESSMENTS**

“SUBCHAPTER A. Insured and self-insured health plans.

9 **“Subchapter A—Insured and Self-Insured**  
 10 **Health Plans**

“Sec. 4501. Health insurance and health-related administrative  
 services.

“Sec. 4502. Self-insured health plans.

“Sec. 4503. Transfer to accounts.

“Sec. 4504. Definitions and special rules.

11 **“SEC. 4501. HEALTH INSURANCE AND HEALTH-RELATED**  
 12 **ADMINISTRATIVE SERVICES.**

13 “(a) IMPOSITION OF TAX.—There is hereby im-  
 14 posed—

15 “(1) on each taxable health insurance policy, a  
 16 tax equal to 1.5 percent of the premiums received  
 17 under such policy, and

18 “(2) on each amount received for health-related  
 19 administrative services, a tax equal to 1.5 percent of  
 20 the amount so received.

21 “(b) LIABILITY FOR TAX.—



1           “(1) HEALTH INSURANCE.—The tax imposed  
2           by subsection (a)(1) shall be paid by the issuer of  
3           the policy.

4           “(2) HEALTH-RELATED ADMINISTRATIVE SERV-  
5           ICES.—The tax imposed by subsection (a)(2) shall  
6           be paid by the person providing the health-related  
7           administrative services.

8           “(c) TAXABLE HEALTH INSURANCE POLICY.—For  
9           purposes of this section—

10           “(1) IN GENERAL.—Except as otherwise pro-  
11           vided in this section, the term ‘taxable health insur-  
12           ance policy’ means any insurance policy providing  
13           accident or health insurance with respect to individ-  
14           uals residing in the United States.

15           “(2) EXEMPTION OF CERTAIN POLICIES.—The  
16           term ‘taxable health insurance policy’ does not in-  
17           clude any insurance policy if substantially all of the  
18           coverage provided under such policy relates to—

19                   “(A) liabilities incurred under workers’  
20                   compensation laws,

21                   “(B) tort liabilities,

22                   “(C) liabilities relating to ownership or use  
23                   of property,

24                   “(D) credit insurance, or

1           “(E) such other similar liabilities as the  
2           Secretary may specify by regulations.

3           “(3) SPECIAL RULE WHERE POLICY PROVIDES  
4           OTHER COVERAGE.—In the case of any taxable  
5           health insurance policy under which amounts are  
6           payable other than for accident or health coverage,  
7           in determining the amount of the tax imposed by  
8           subsection (a)(1) on any premium paid under such  
9           policy, there shall be excluded the amount of the  
10          charge for the nonaccident or nonhealth coverage  
11          if—

12                 “(A) the charge for such nonaccident or  
13                 nonhealth coverage is either separately stated in  
14                 the policy, or furnished to the policyholder in a  
15                 separate statement, and

16                 “(B) such charge is reasonable in relation  
17                 to the total charges under the policy.

18          In any other case, the entire amount of the premium  
19          paid under such policy shall be subject to tax under  
20          subsection (a)(1).

21           “(4) TREATMENT OF PREPAID HEALTH COV-  
22           ERAGE ARRANGEMENTS.—

23                 “(A) IN GENERAL.—In the case of any ar-  
24                 rangement described in subparagraph (B)—

1 “(i) such arrangement shall be treated  
2 as a taxable health insurance policy,

3 “(ii) the payments or premiums re-  
4 ferred to in subparagraph (B)(i) shall be  
5 treated as premiums received for a taxable  
6 health insurance policy, and

7 “(iii) the person referred to in sub-  
8 paragraph (B)(i) shall be treated as the is-  
9 suer.

10 “(B) DESCRIPTION OF ARRANGEMENTS.—  
11 An arrangement is described in this subpara-  
12 graph if under such arrangement—

13 “(i) fixed payments or premiums are  
14 received as consideration for any person’s  
15 agreement to provide or arrange for the  
16 provision of accident or health coverage to  
17 residents of the United States, regardless  
18 of how such coverage is provided or ar-  
19 ranged to be provided, and

20 “(ii) substantially all of the risks of  
21 the rates of utilization of services is as-  
22 sumed by such person or the provider of  
23 such services.

1       “(d) HEALTH-RELATED ADMINISTRATIVE SERV-  
 2 ICES.—For purposes of this section, the term ‘health-re-  
 3 lated administrative services’ means—

4               “(1) the processing of claims or performance of  
 5 other administrative services in connection with acci-  
 6 dent or health coverage under a taxable health in-  
 7 surance policy if the charge for such services is not  
 8 included in the premiums under such policy, and

9               “(2) processing claims, arranging for provision  
 10 of accident or health coverage, or performing other  
 11 administrative services in connection with an appli-  
 12 cable self-insured health plan (as defined in section  
 13 4502(c)) established or maintained by a person  
 14 other than the person performing the services.

15 For purposes of paragraph (1), rules similar to the rules  
 16 of subsection (c)(3) shall apply.

17 **“SEC. 4502. SELF-INSURED HEALTH PLANS.**

18       “(a) IMPOSITION OF TAX.—In the case of any appli-  
 19 cable self-insured health plan, there is hereby imposed a  
 20 tax for each month equal to 1.5 percent of the sum of—

21               “(1) the accident or health coverage expendi-  
 22 tures for such month under such plan, and

23               “(2) the administrative expenditures for such  
 24 month under such plan to the extent such expendi-  
 25 tures are not subject to tax under section 4501.

1 In determining the amount of expenditures under para-  
 2 graph (2), rules similar to the rules of subsection (d)(3)  
 3 apply.

4 “(b) LIABILITY FOR TAX.—

5 “(1) IN GENERAL.—The tax imposed by sub-  
 6 section (a) shall be paid by the plan sponsor.

7 “(2) PLAN SPONSOR.—For purposes of para-  
 8 graph (1), the term ‘plan sponsor’ means—

9 “(A) the employer in the case of a plan es-  
 10 tablished or maintained by a single employer,

11 “(B) the employee organization in the case  
 12 of a plan established or maintained by an em-  
 13 ployee organization, or

14 “(C) in the case of—

15 “(i) a plan established or maintained  
 16 by 2 or more employers or jointly by 1 or  
 17 more employers and 1 or more employee  
 18 organizations,

19 “(ii) a voluntary employees’ bene-  
 20 ficiary association under section 501(c)(9),  
 21 or

22 “(iii) any other association plan,  
 23 the association, committee, joint board of trust-  
 24 ees, or other similar group of representatives of  
 25 the parties who establish or maintain the plan.

1       “(c) APPLICABLE SELF-INSURED HEALTH PLAN.—

2 For purposes of this section, the term ‘applicable self-in-  
3 sured health plan’ means any plan for providing accident  
4 or health coverage if any portion of such coverage is pro-  
5 vided other than through an insurance policy.

6       “(d) ACCIDENT OR HEALTH COVERAGE EXPENDI-  
7 TURES.—For purposes of this section—

8               “(1) IN GENERAL.—The accident or health cov-  
9 erage expenditures of any applicable self-insured  
10 health plan for any month are the aggregate expend-  
11 itures paid in such month for accident or health cov-  
12 erage provided under such plan to the extent such  
13 expenditures are not subject to tax under section  
14 4501.

15              “(2) TREATMENT OF REIMBURSEMENTS.—In  
16 determining accident or health coverage expenditures  
17 during any month of any applicable self-insured  
18 health plan, reimbursements (by insurance or other-  
19 wise) received during such month shall be taken into  
20 account as a reduction in accident or health coverage  
21 expenditures.

22              “(3) CERTAIN EXPENDITURES DISREGARDED.—  
23 Paragraph (1) shall not apply to any expenditure for  
24 the acquisition or improvement of land or for the ac-  
25 quisition or improvement of any property to be used

1 in connection with the provision of accident or  
2 health coverage which is subject to the allowance  
3 under section 167, except that, for purposes of para-  
4 graph (1), allowances under section 167 shall be  
5 considered as expenditures.

6 **“SEC. 4503. TRANSFER TO ACCOUNTS.**

7 “For fiscal year 1998 and each subsequent fiscal  
8 year, there are hereby appropriated and transferred to the  
9 Medical Education Trust Fund amounts equivalent to  
10 taxes received in the Treasury under sections 4501 and  
11 4502, of which—

12 “(1) there shall be allocated and transferred to  
13 the Medical School Account an amount which bears  
14 the same ratio to the total amount available under  
15 section 2102(b)(1) for the fiscal year (reduced by  
16 the balance in such account at the end of the pre-  
17 ceding fiscal year) as the amount transferred to the  
18 Medical Education Trust Fund under title XXI of  
19 the Social Security Act under this section bears to  
20 the total amounts transferred to such Trust Fund  
21 (excluding amounts transferred under subsections  
22 (c)(3) and (d) of section 2101 of such Act) for such  
23 fiscal year; and

1           “(2) the remainder shall be allocated and trans-  
 2           ferred to the Non-Medicare Teaching Hospital Indi-  
 3           rect Account and the Non-Medicare Teaching Hos-  
 4           pital Direct Account, in the same proportion as the  
 5           amounts transferred to such account under section  
 6           1886(j) relate to the total amounts transferred  
 7           under such section for such fiscal year.

8           Such amounts shall be transferred in the same manner  
 9           as under section 9601.

10   **“SEC. 4504. DEFINITIONS AND SPECIAL RULES.**

11           “(a) DEFINITIONS.—For purposes of this sub-  
 12           chapter—

13           “(1) ACCIDENT OR HEALTH COVERAGE.—The  
 14           term ‘accident or health coverage’ means any cov-  
 15           erage which, if provided by an insurance policy,  
 16           would cause such policy to be a taxable health insur-  
 17           ance policy (as defined in section 4501(c)).

18           “(2) INSURANCE POLICY.—The term ‘insurance  
 19           policy’ means any policy or other instrument where-  
 20           by a contract of insurance is issued, renewed, or ex-  
 21           tended.

22           “(3) PREMIUM.—The term ‘premium’ means  
 23           the gross amount of premiums and other consider-  
 24           ation (including advance premiums, deposits, fees,  
 25           and assessments) arising from policies issued by a



1 person acting as the primary insurer, adjusted for  
 2 any return or additional premiums paid as a result  
 3 of endorsements, cancellations, audits, or retrospec-  
 4 tive rating. Amounts returned where the amount is  
 5 not fixed in the contract but depends on the experi-  
 6 ence of the insurer or the discretion of management  
 7 shall not be included in return premiums.

8 “(4) UNITED STATES.—The term ‘United  
 9 States’ includes any possession of the United States.

10 “(b) TREATMENT OF GOVERNMENTAL ENTITIES.—

11 “(1) IN GENERAL.—For purposes of this sub-  
 12 chapter—

13 “(A) the term ‘person’ includes any gov-  
 14 ernmental entity, and

15 “(B) notwithstanding any other law or rule  
 16 of law, governmental entities shall not be ex-  
 17 empt from the taxes imposed by this subchapter  
 18 except as provided in paragraph (2).

19 “(2) EXEMPT GOVERNMENTAL PROGRAMS.—In  
 20 the case of an exempt governmental program—

21 “(A) no tax shall be imposed under section  
 22 4501 on any premium received pursuant to  
 23 such program or on any amount received for  
 24 health-related administrative services pursuant  
 25 to such program, and

1           “(B) no tax shall be imposed under section  
2           4502 on any expenditures pursuant to such  
3           program.

4           “(3) EXEMPT GOVERNMENTAL PROGRAM.—For  
5           purposes of this subchapter, the term ‘exempt gov-  
6           ernmental program’ means—

7           “(A) the insurance programs established  
8           by parts A and B of title XVIII of the Social  
9           Security Act,

10          “(B) the medical assistance program es-  
11          tablished by title XIX of the Social Security  
12          Act,

13          “(C) any program established by Federal  
14          law for providing medical care (other than  
15          through insurance policies) to individuals (or  
16          the spouses and dependents thereof) by reason  
17          of such individuals being—

18                 “(i) members of the Armed Forces of  
19                 the United States, or

20                 “(ii) veterans, and

21          “(D) any program established by Federal  
22          law for providing medical care (other than  
23          through insurance policies) to members of In-  
24          dian tribes (as defined in section 4(d) of the In-  
25          dian Health Care Improvement Act).

1       “(c) NO COVER OVER TO POSSESSIONS.—Notwith-  
 2 standing any other provision of law, no amount collected  
 3 under this subchapter shall be covered over to any posses-  
 4 sion of the United States.”.

5       (b) CLERICAL AMENDMENT.—The table of chapters  
 6 for subtitle D of the Internal Revenue Code of 1986 is  
 7 amended by inserting after the item relating to chapter  
 8 36 the following new item:

“CHAPTER 37. Health related assessments.”

9       (c) EFFECTIVE DATE.—The amendments made by  
 10 this section shall apply with respect to premiums received,  
 11 and expenses incurred, with respect to coverage for peri-  
 12 ods after September 30, 1997.

13 **SEC. 6. MEDICAL EDUCATION ADVISORY COMMISSION.**

14       (a) ESTABLISHMENT.—There is hereby established  
 15 an advisory commission to be known as the Medical Edu-  
 16 cation Advisory Commission (in this section referred to as  
 17 the “Advisory Commission”).

18       (b) DUTIES.—

19               (1) IN GENERAL.—The Advisory Commission  
 20 shall—

21                       (A) conduct a thorough study of all mat-  
 22 ters relating to—

23                               (i) the operation of the Medical Edu-  
 24 cation Trust Fund established under sec-  
 25 tion 2;

1 (ii) alternative and additional sources  
2 of graduate medical education funding;

3 (iii) alternative methodologies for  
4 compensating teaching hospitals for grad-  
5 uate medical education;

6 (iv) policies designed to maintain su-  
7 perior research and educational capacities  
8 in an increasing competitive health system;

9 (v) the role of medical schools in grad-  
10 uate medical education; and

11 (vi) policies designed to expand eligi-  
12 bility for graduate medical education pay-  
13 ments to institutions other than teaching  
14 hospitals;

15 (B) develop recommendations, including  
16 the use of demonstration projects, on the mat-  
17 ters studied under subparagraph (A) in con-  
18 sultation with the Secretary of Health and  
19 Human Services and the entities described in  
20 paragraph (2);

21 (C) not later than January 1999, submit  
22 an interim report to the Committee on Finance  
23 of the Senate, the Committee on Ways and  
24 Means of the House of Representatives, and the  
25 Secretary of Health and Human Services; and

1 (D) not later than January 2001, submit  
 2 a final report to the Committee on Finance of  
 3 the Senate, the Committee on Ways and Means  
 4 of the House of Representatives, and the Sec-  
 5 retary of Health and Human Services.

6 (2) ENTITIES DESCRIBED.—The entities de-  
 7 scribed in this paragraph are—

8 (A) other advisory groups, including the  
 9 Council on Graduate Medical Education, the  
 10 Prospective Payment Assessment Commission,  
 11 and the Physician Payment Review Commis-  
 12 sion;

13 (B) interested parties, including the Asso-  
 14 ciation of American Medical Colleges, the Asso-  
 15 ciation of Academic Health Centers, and the  
 16 American Medical Association;

17 (C) health care insurers, including man-  
 18 aged care entities; and

19 (D) other entities as determined by the  
 20 Secretary of Health and Human Services.

21 (c) NUMBER AND APPOINTMENT.—The membership  
 22 of the Advisory Commission shall include 9 individuals  
 23 who are appointed to the Advisory Commission from  
 24 among individuals who are not officers or employees of  
 25 the United States. Such individuals shall be appointed by

1 the Secretary of Health and Human Services, and shall  
 2 include individuals from each of the following categories:

3 (1) Physicians who are faculty members of  
 4 medical schools.

5 (2) Officers or employees of teaching hospitals.

6 (3) Officers or employees of health plans.

7 (4) Deans of medical schools.

8 (5) Such other individuals as the Secretary de-  
 9 termines to be appropriate.

10 (d) TERMS.—

11 (1) IN GENERAL.—Except as provided in para-  
 12 graph (2), members of the Advisory Commission  
 13 shall serve for the lesser of the life of the Advisory  
 14 Commission, or 4 years.

15 (2) SERVICE BEYOND TERM.—A member of the  
 16 Advisory Commission may continue to serve after  
 17 the expiration of the term of the member until a  
 18 successor is appointed.

19 (e) VACANCIES.—If a member of the Advisory Com-  
 20 mission does not serve the full term applicable under sub-  
 21 section (d), the individual appointed to fill the resulting  
 22 vacancy shall be appointed for the remainder of the term  
 23 of the predecessor of the individual.

1 (f) CHAIR.—The Secretary of Health and Human  
2 Services shall designate an individual to serve as the Chair  
3 of the Advisory Commission.

4 (g) MEETINGS.—The Advisory Commission shall  
5 meet not less than once during each 4-month period and  
6 shall otherwise meet at the call of the Secretary of Health  
7 and Human Services or the Chair.

8 (h) COMPENSATION AND REIMBURSEMENT OF EX-  
9 PENSES.—Members of the Advisory Commission shall re-  
10 ceive compensation for each day (including travel time) en-  
11 gaged in carrying out the duties of the Advisory Commis-  
12 sion. Such compensation may not be in an amount in ex-  
13 cess of the maximum rate of basic pay payable for level  
14 IV of the Executive Schedule under section 5315 of title  
15 5, United States Code.

16 (i) STAFF.—

17 (1) STAFF DIRECTOR.—The Advisory Commis-  
18 sion shall, without regard to the provisions of title  
19 5, United States Code, relating to competitive serv-  
20 ice, appoint a Staff Director who shall be paid at a  
21 rate equivalent to a rate established for the Senior  
22 Executive Service under 5382 of title 5, United  
23 States Code.

1           (2) ADDITIONAL STAFF.—The Secretary of  
 2       Health and Human Services shall provide to the Ad-  
 3       visory Commission such additional staff, informa-  
 4       tion, and other assistance as may be necessary to  
 5       carry out the duties of the Advisory Commission.

6           (j) TERMINATION OF THE ADVISORY COMMISSION.—  
 7       The Advisory Commission shall terminate 90 days after  
 8       the date on which the Advisory Commission submits its  
 9       final report under subsection (b)(1)(D).

10          (k) AUTHORIZATION OF APPROPRIATIONS.—There  
 11       are authorized to be appropriated such sums as may be  
 12       necessary to carry out the purposes of this section.

13       **SEC. 7. DEMONSTRATION PROJECTS.**

14          (a) ESTABLISHMENT.—The Secretary of Health and  
 15       Human Services (in this section referred to as the “Sec-  
 16       retary”) shall establish, by regulation, guidelines for the  
 17       establishment and operation of demonstration projects  
 18       which the Medical Education Advisory Commission rec-  
 19       ommends under subsection (b)(1)(B) of section 6.

20          (b) FUNDING.—

21               (1) IN GENERAL.—For any fiscal year after  
 22       1997, amounts in the Medical Education Trust  
 23       Fund under title XXI of the Social Security Act



1 shall be available for use by the Secretary in the es-  
2 tablishment and operation of demonstration projects  
3 described in subsection (a).

4 (2) FUNDS AVAILABLE.—

5 (A) LIMITATION.—Not more than  $\frac{1}{10}$  of 1  
6 percent of the funds in such trust fund shall be  
7 available for the purposes of paragraph (1).

8 (B) ALLOCATION.—Amounts under para-  
9 graph (1) shall be paid from the accounts es-  
10 tablished under paragraphs (2) through (5) of  
11 section 2101(a) of the Social Security Act, in  
12 the same proportion as the amounts transferred  
13 to such accounts bears to the total of amounts  
14 transferred to all 4 such accounts for such fis-  
15 cal year.

16 (c) LIMITATION.—Nothing in this section shall be  
17 construed to authorize any change in the payment meth-  
18 odology for teaching hospitals and medical schools estab-  
19 lished by this Act.

○