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WHITE HOUSE
OFFICE OF RECORDS MANAGEMENT
WORKSHEET

TR

☐ X–MEDIA
☐ H–INTERNAL

Name of Document: BRIEFING PAPERS FOR PRESIDENT'S SCHEDULED APPOINTMENTS FOR JAN 04 83

Subject:
1) List of invitees/attendees for National Security Planning Group meeting
2) Breakfast meeting with selected group of Republican Senators to discuss the Fiscal year 1984 Budget
3) Luncheon meeting with Cabinet Council on Human Resources to discuss Medicare, Medicaid and private health care insurance

Subject Codes:
PR 007-01
FG 006-12
FG 035
PL 005-04
SO 001
FI 004
FG 010-02
IS 001
PE 005

ROUTE TO:		ACTION		DISPOSITION		
Office/Agency	(Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
RMHENL		RSZ			C	

Referral Note:

THE SCHEDULE OF PRESIDENT RONALD REAGAN

Tuesday, January 4, 1983

Time	Event	Location
8:30 am (90 min)	Breakfast with GOP Congressional Leaders (Duberstein/Rosebush) (TAB A)	Residence
10:00 am (15 min)	Staff Time (Baker, Meese, Deaver)	Oval Office
10:15 am (15 min)	National Security Briefing (Clark)	Oval Office
10:30 am (30 min)	Personal Staff Time	Oval Office
11:00 am (60 min)	Meeting with National Security Planning Group (Clark)	Oval Office
12:00 m (90 min)	Working Lunch with Cabinet Council on Human Resources (Fuller) (TAB B)	Cabinet Room
1:30 pm (2 hrs)	Pre-News Conference Briefing (Gergen/Speakes)	Family Theater
3:30 pm (90 min)	Personal Staff Time	Oval Office/ Residence
5:00 pm (30 min)	Haircut	W. Basement

UNP 1/3/83
5:00 pm

REQUEST FOR APPOINTMENTS

NSPG

To: Officer-in-charge
Appointments Center
Room 060, OEOB

Please admit the following appointments on January 4, 19 83

for The President (NAME OF PERSON TO BE VISITED) of White House (AGENCY):

The Vice President ✓
Adm Daniel Murphy ✓
State:
Secretary George P. Shultz ✓
~~Mr. Stephen Bosworth~~ Amb Thomas Enders ✓

OSD:
Secretary Caspar W. Weinberger ✓

CIA:
Mr. William J. Casey ✓

USUN:
Amb Jeane J. Kirkpatrick ✓

JCS:
General John W. Vessey, Jr. ✓

White House:
Mr. Edwin Meese III ✓
Mr. James A. Baker III ✓
Judge William P. Clark ✓
Mr. Robert C. McFarlane ✓

NSC:
Mr. Alfonso Sapia-Bosch ✓

MEETING LOCATION

Building West Wing White House Requested by Carol Cleveland

Room No. Situation Room Room No. 372 Telephone 3044

Time of Meeting 11:00 a.m. Date of request January 4, 1983

Additions and/or changes made by telephone should be limited to three (3) names or less.

APPOINTMENTS CENTER: SIG/OEOB — 395-6046 or WHITE HOUSE — 456-6742

PARTICIPANTS

The President
The Vice President
Secretary of the Treasury Regan
OMB Director Stockman
Senator Howard Baker (R-Tennessee)
Senator Pete Domenici (R-New Mexico)
Senator Robert Dole (R-Kansas)
Senator Mark Hatfield (R-Oregon)
Senator Jake Garn (R-Utah)
Senator Paul Laxalt (R-Nevada)

Staff

James A. Baker III
Edwin Meese III
Michael Deaver
Richard Darman
William Clark
Kenneth M. Duberstein
Pamela J. Turner

THE SCHEDULE OF
PRESIDENT RONALD REAGAN

Dcf

Tuesday, January 4, 1983

8:30 am (90 min)	8:30 – 10:05 Breakfast with GOP Congressional Leaders (Duberstein/Rosebush) (TAB A)	Residence
10:00 am (15 min)	Staff Time 10:07 – (Baker, Meese, Deaver) 10:07 – 10:15 Don Regan, EM, JB, MKD, WC 10:15 – 10:30 EM, JB, MKD	Oval Office
10:15 am (15 min)	~~National Security Briefing~~ ~~(Clark)~~	~~Oval Office~~
10:30 am (30 min)	Personal Staff Time 10:30 – 11:00	Oval Office
11:00 am (60 min)	Meeting with National Security Planning Group 11:00 – 12:12 (Clark)	Situation Room ~~Oval Office~~
12:00 m (90 min)	Working Lunch with Cabinet Council on Human Resources 12:22 – 1:45 (Fuller) (TAB B)	Cabinet Room
1:30 pm (2 hrs)	Pre-News Conference Briefing (Gergen/Speakes) 2:05 – 3:45	Family Theater
3:30 pm (90 min)	Personal Staff Time 3:45 – 4:59	Oval Office/ Residence
5:00 pm ✓ (30 min)	Haircut 5:00 – 5:35	W. Basement

UNP 1/3/83
5:00 pm

The President has seen ____

THE SCHEDULE OF PRESIDENT RONALD REAGAN

Tuesday, January 4, 1983

8:30 am (90 min)	Breakfast with GOP Congressional Leaders (Duberstein/Rosebush) (TAB A)	Residence
10:00 am (15 min)	Staff Time (Baker, Meese, Deaver)	Oval Office
10:15 am (15 min)	National Security Briefing (Clark)	Oval Office
10:30 am (30 min)	Personal Staff Time	Oval Office
11:00 am (60 min)	Meeting with National Security Planning Group (Clark)	Oval Office
12:00 m (90 min)	Working Lunch with Cabinet Council on Human Resources (Fuller) (TAB B)	Cabinet Room
1:30 pm (2 hrs)	Pre-News Conference Briefing (Gergen/Speakes)	Family Theater
3:30 pm (90 min)	Personal Staff Time	Oval Office/ Residence
5:00 pm (30 min)	Haircut	W. Basement

UNP 1/3/83
5:00 pm

A

THE WHITE HOUSE

WASHINGTON

December 30, 1982

BREAKFAST MEETING WITH SELECTED GROUP OF
REPUBLICAN SENATORS
DATE: Tuesday, January 4, 1983
LOCATION: First Floor Family Dining Room
TIME: 8:30 - 10:00 a.m. (1½ hours)

FROM: Kenneth M. Duberstein

I. PURPOSE

To allow an opportunity for consultation with certain Republican Senators on the legislative and political aspects of the FY 84 budget.

II. BACKGROUND

There is a good deal of concern among Senate Republicans with regard to the prospects for the FY 84 budget which will be presented by the Administration. While most Republicans are inclined to support the President's goals, many of them are becoming somewhat nervous about the specifics involved, such as further cuts in domestic spending, increases in defense spending, and the probability of a large and ever increasing deficit. The lack of a definitive upturn in the economy, as well as the 1982 election, have exacerbated these concerns among Republicans.

Several Republican Senators have expressed the fear that unless careful consideration is given to the legislative and political ramifications of the budget, it may well be "dead on arrival" when it reaches the Congress. Also, Senators have repeatedly expressed interest in budget consultations with members of the Administration prior to final budget decisions being made.

Today's breakfast meeting will respond to these requests for consultation, and will also provide an opportunity for an informative exchange of ideas with regard to this crucial economic issue.

III. PARTICIPANTS

List attached

IV. PRESS PLAN

White House photographer only.

V. SEQUENCE OF EVENTS

Senators to arrive Southwest Gate, enter the Diplomatic Reception Room, and be escorted to the First Floor Family Dining Room for a breakfast meeting with the President.

Attachments: Participants List
Talking Points

PARTICIPANTS

The President
The Vice President
Secretary of the Treasury Regan
OMB Director Stockman
Senator Howard Baker (R-Tennessee)
Senator Pete Domenici (R-New Mexico)
Senator Robert Dole (R-Kansas)
Senator Mark Hatfield (R-Oregon)
Senator Jake Garn (R-Utah)
Senator Paul Laxalt (R-Nevada)

Staff

James A. Baker III
Edwin Meese III
Michael Deaver
Richard Darman
William Clark
Kenneth M. Duberstein
Pamela J. Turner

TALKING POINTS

--- Welcome back. Wish some of your colleagues had decided to stay away longer.

--- Appreciate your strong, consistent support during the past two years. We've been a great team and I know full well how often you towed the mark for our programs.

--- As we focus on the agenda for the new Congress, I want you to know that economic recovery remains #1.

--- I share the concern I've heard you have been expressing on the size of the projected deficits.

--- I have been spending a great deal of time working on the FY84 budget and understand you, too, have been developing some ideas. I'd like to have the benefit of your thoughts.

--- I'd like Dave Stockman to lead off with a few comments.

B

THE WHITE HOUSE

WASHINGTON

January 3, 1982

Cabinet Council on Human Resources Meeting

DATE: January 4, 1982
LOCATION: Cabinet Room
TIME: 12:00 Noon (90 minutes)

I. PURPOSE

To discuss a number of health care incentives which will enable the government to control the amount of taxpayer dollars going into the health care programs and discourage spiraling health care costs.

II. BACKGROUND

The specific areas for discussion and decision are: MEDICARE:

1) Should Part A Medicare Catastrophic Benefits be provided? Beneficiaries would pay some coinsurance under this plan.

2) Increase the voluntary Part B Medicare premium. The total premium income would equal 35-40% of projected outlays instead of 25%.

3) Establish a Voluntary Voucher Program. Medicare beneficiaries would be given the option of applying their Medicare benefits toward the premium of a private health plan.

4) Prospective Payment for Hospitals. Medicare would pay hospitals according to a schedule of prospectively determined rates.

5) Index the Part B Medicare Deductible.

6) Limit Medicare Reimbursement to Home Health Agencies for Durable Medical Equipment. Would involve some coinsurance.

7) Defer Medicare Eligibility Until First Full Month Following Sixty-fifth Birthday. This would be changed from the first day of the month of their birthday to the first full month after their birthday.

8) Competitive Bidding for Laboratory Services and Durable Medical Equipment.

MEDICAID

9) Mandatory (minimal) Copayments Under Medicaid. Costs to patients would be $1 to $2 per day.

10) Extend Omnibus Budget Reconciliation Act's Reduction in the Federal Share of Outlays and Provide Incentives for States to Reduce Spending. This provides for a very limited reduction to each State for Medicaid.

PRIVATE INSURANCE

11A) Limit the Amount of Employer-Paid Health Benefits that are Tax- Free to the Employee.

11B) Limit the Amount of Employer-Paid Health Benefits that are Tax-Deductible to the Employer.

III. PARTICIPANTS

Members of the Cabinet Council on Human Resources. A list will be attached to the agenda.

IV. PRESS PLAN

None

V. SEQUENCE OF EVENTS

Secretary Schweiker is prepared to lead the discussion.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

January 3, 1983

MEMORANDUM TO THE PRESIDENT

FROM : Secretary Schweiker

SUBJECT : Health Care Incentives Project

The purpose of this memorandum is to present a series of options for slowing the increase in health care costs.

The options were developed by an interagency group, including representatives of HHS, Treasury, OMB, the Council of Economic Advisers, and the White House Office of Policy Development. These options have not been endorsed by the heads of the organizations represented on the interagency group.

After reviewing existing Federal programs and consulting with private organizations interested in health policy, the interagency group concluded that Federal tax and spending policies have helped cause the spiral in health care costs. The Federal government has supported the growth of public and private health insurance that substantially hides the cost of health care from consumers, physicians, hospitals, and other health care providers. The result is a health care marketplace driven by "backward" incentives that encourage inefficiency. This inefficiency is, in turn, threatening to make health care so expensive that it is beyond the reach of many Americans.

The options that follow would help correct the "backward" incentives created by past Federal policy. Some of the following options may be controversial because they would force consumers and providers to confront costs that are now at least partially hidden from view, thus presenting difficult decisions. Yet concealing costs to the extent we have in the past increases the nation's total bill for health care by making everyone less sensitive to the costs of their decisions. Furthermore, the current system fails to reward cost-consciousness and efficiency, allowing wasteful consumers and providers to shift the economic burden from their actions onto other citizens.

OPTIONS

Medicare

Current law

- Medicare Part A covers ninety hospital days and one hundred skilled nursing facility days per spell of illness, supplemented by sixty non-renewable lifetime reserve hospital days.

- In calendar year 1983, the beneficiary will pay a Part A deductible of $304 and then be completely covered for basic hospital services until day 61 of a spell of illness.

- From hospital day 61 through day 90, the beneficiary must pay one-quarter of the deductible ($76 in 1983) for each day.

- For each lifetime reserve day, the beneficiary must pay one-half of the deductible ($152).

- Beneficiaries pay one-eighth of the Part A deductible ($38) for each skilled nursing day from day 21 through day 100 of a spell of illness.

- The Part A deductible is recalculated each calendar year so that it rises with the cost of a day in the hospital. Under current law, the calendar year 1984 deductible will increase to about $350.

- To receive Medicare Part B benefits, a beneficiary can voluntarily pay a monthly premium of $12.20 per month or $146.40 per year. Approximately 97% of eligible individuals elect this coverage, and the premium is automatically deducted from social security checks.

- Each July, the Part B premium is set so that total premium income equals 25 percent of projected Part B outlays for beneficiaries over age 65.

- After a $75 deductible, Medicare Part B pays 80 percent of the "customary, prevailing, and reasonable" charges of physicians, laboratories, and other Part B providers.

- o The Part B deductible is not indexed.

- o There is no limit on the amount of out-of-pocket costs a Medicare beneficiary can incur under either Part A or Part B.

Option 1: Provide Part A Catastrophic Benefits

- o The following changes would take effect on January 1, 1984.

- o The existing limits on covered hospital days would be removed, but the 100 day per spell-of-illness limit on covered days in a skilled nursing facility would be retained.

- o The current law deductible would be retained--that is the deductible would equal the average cost of a hospital day (about $350 in 1984) and would be assessed on the first day of each spell of illness.

- o Beneficiaries would pay 10 percent coinsurance (about $35 per day in 1984) on hospital days two through fifteen in a spell of illness and 5 percent coinsurance (about $17.50 per day in 1984) on subsequent days.

- o Beneficiaries would pay 5 percent coinsurance (about $17.50 per day in 1984) on days 21-100 in a skilled nursing facility.

- o No beneficiary would be required to pay the Part A deductible more than twice per year.

- o No beneficiary would be required to pay either a deductible or coinsurance on more than 60 hospital days per year.

Effect on Federal Benefit Outlays*
(in millions)

	FY 84	FY 85	FY 86	FY 87	FY 88	5-Year TOTAL
Medicare Outlays	$-960	-1730	-1970	-2200	-2460	-9320
Medicaid Outlays	$+ 70	+130	+150	+165	+185	+700
Net	$-890	-1600	-1820	-2035	-2275	-8620

* When Medicare beneficiaries are required to pay more of their medical expenses out-of-pocket, Medicaid outlays increase since Medicaid pays the cost-sharing for the four million beneficiaries eligible for both programs.

Comment: Under current law, a beneficiary hospitalized for 150 consecutive days in 1984 would incur out-of-pocket costs for hospital care of $13,475. Under this proposal, the same beneficiary would pay only $1627.50.

Option 2: Increase the Part B Premium

- o Beginning July 1, 1984, the Part B premium would be set so that total premium income equals 35 percent of projected Part B outlays for the aged.

- o In subsequent years, the percentage of Part B outlays covered by premiums would increase by one percentage point each year until it reaches 40 percent. It would then be held constant at 40 percent.

- o Although participation in Part B is voluntary, most beneficiaries elect to have the Part B premium deducted from their monthly Social Security check. To prevent any beneficiary from experiencing an actual reduction in his Social Security check compared to the preceding year, a "hold harmless" provision would be included in this proposal. About 200,000 couples on Social Security would benefit from this provision.

Effect on Medicare Premium Revenues
(in millions)

FY 84	FY 85	FY 86	FY 87	FY 88	5-Year TOTAL
$+525	+2,335	+3,280	+4,445	+5,805	+16,390

Effect on Medicaid Benefit Outlays
(in millions)

FY 84	FY 85	FY 86	FY 87	FY 88	5-YEAR TOTAL
$+39	+175	+246	+333	+435	+1228

Projected Premiums

	7/1/83	7/1/84	7/1/85	7/1/86	7/1/87	7/1/88
Current law per month	$13.50	$14.80	$15.60	$16.30	$17.10	$18.00
Proposed per month	$13.50	$20.70	$23.80	$27.30	$31.30	$35.70
% Increase per month	0%	40%	53%	67%	83%	98%
Total Increase per year	$ 0	$70.80	$98.40	$132.00	$170.40	$212.40

Comment: From July 1984 to July 1985, a beneficiary would pay $248.40 in Part B premiums, an increase of $70.80 over the amount projected under current law.

Option 3: Establish a Voluntary Voucher Program

- Medicare beneficiaries would be given the option of applying their Medicare benefits toward the premium of a private health plan. Medicare's contribution would be set at 95 percent of what it would have cost the government to care for the beneficiary if he or she had elected to receive traditional Medicare benefits.

- Enrollment in a private health plan would be voluntary, and all beneficiaries would retain the right to return to Medicare during an annual open enrollment period.

- To participate in this program, a private health plan would be required to offer benefits at least as comprehensive as Medicare's.

- Beneficiaries would be permitted to enroll in private health plans beginning January 1, 1985.

Effect on Federal Benefit Outlays*
(in millions)

FY 84	FY 85	FY 86	FY 87	FY 88	5-Year TOTAL
$+ (An average of less than $50 million per year)					less than +250

* This estimate is being revised by the Medicare actuaries.

Comment: Since enrollment in a private plan would be voluntary and all plans would be required to meet minimum standards, no beneficiary would be harmed by this proposal, and some beneficiaries would be able to elect better coverage than they now have.

Option 4: Prospective Payment for Hospitals

- Rather than reimbursing hospitals for whatever costs they incur, as is done under current law, Medicare would pay hospitals according to a schedule of prospectively determined rates.

- A separate rate would be set for each of 467 diagnosis-related groups (DRGs), with adjustments for local wages, teaching costs, and capital costs.

- Regardless of the costs they incur, hospitals would be paid no more than the DRG-based rate. As an incentive for efficiency, hospitals that incur costs lower than the DRG-based rate would be permitted to keep the difference.

Comment: The Tax Equity and Fiscal Responsibility Act (TEFRA) established limits on the hospital costs that Medicare may reimburse. The TEFRA cost reimbursement limits will result in substantial short-run savings for Medicare, but TEFRA requires HHS to submit a prospective payment proposal to Congress by December 31, 1982. The prospective rates will be set so that Medicare outlays will be reduced by the same amount as under TEFRA.

Option 5: Index the Part B Deductible

- The Part B deductible would be indexed to rise with the Medicare economic index.

- The indexing would take effect January 1, 1984.

Effect on Federal Benefit Outlays
(in millions)

	FY 84	FY 85	FY 86	FY 87	FY 88	5-Year TOTAL
Medicare Outlays	$-50	-125	-215	-310	-410	-1110
Medicaid Outlays	$+ 4	+ 9	+ 16	+ 23	+ 31	+83
Net	$-46	-116	-199	-287	-379	-1027

Projected Deductible

CY 84	CY 85	CY 86	CY 87	CY 88
$80	85	90	95	100

Option 6: Limit Medicare Reimbursement to Home Health Agencies for Durable Medical Equipment

- Under current law, Medicare pays for durable medical equpment (for example, wheelchairs) under both Part A and Part B. Under Part A, durable medical equipment is covered as a home health service. Home health agencies are paid 100 percent of their "reasonable cost" for the equipment; beneficiaries are not responsible for any deductible or coinsurance for home health services. Under Part B, Medicare pays only 80 percent of the reasonable charge for the durable medical equipment, while the beneficiary pays the remaining 20 percent and any remaining portion of the Part B deductible.

- This proposal would limit reimbursement for durable medical equipment under Part A to 80 percent of the reasonable costs of the equipment. The beneficiary would pay the other 20 percent as coinsurance.

Effect on Federal Benefit Outlays
(in millions)

	FY 84	FY 85	FY 86	FY 87	FY 88	5-Year TOTAL
Medicare Outlays	-$15	-15	-20	-20	-25	-95
Medicaid Outlays	+$1	+1	+2	+2	+2	+8
Net	-$14	-14	-18	-18	-23	-87

<u>Option 7: Defer Medicare Eligiblity Until First Full Month Following Sixty-fifth Birthday</u>

- o Under current law, individuals become entitled to Medicare benefits on the first day of the month of their sixty-fifth birthday.
- o This proposal would defer eligibility until the first day of the month following the individual's sixty-fifth birthday.

Effect on Federal Benefit Outlays
(in millions)

	FY 84	FY 85	FY 86	FY 87	FY 88	5-Year TOTAL
Medicare Outlays	-$230	-270	-310	-350	-400	-1560

<u>Option 8: Competitive Bidding for Laboratory Services and Durable Medical Equipment</u>

- o HHS would be authorized to employ competitive procurement procedures for the bulk purchase of laboratory services and durable medical equipment (DME).
- o HHS would be authorized to limit beneficiaries' choice of laboratory or DME provider and to waive patient cost-sharing for lab services and DME.

Effect on Federal Benefit Outlays
(in millions)

	FY 84	FY 85	FY 86	FY 87	FY 88	5-Year TOTAL
Medicare Outlays	-$9	-14	-20	-35	-55	-133

Medicaid

Current law

- Medicaid is a joint Federal/State program. The Federal government makes matching grants to States electing to establish and administer a program. The Federal share of Medicaid costs is inversely related to a State's per capita income.

- The maximum Federal share in 1980 was 77.55 percent; the minimum Federal share was 50 percent.

- The Omnibus Budget Reconciliation Act of 1981 (OBRA) reduced the Federal payment to each State by 3 percent in FY 1982, 4 percent in FY 1983, and 4.5 percent in FY 1984. The amount of the reduction in the Federal payment would be cut:

  -- by one percentage point if the State has a qualified hospital cost review program;
  -- by one percentage point if the State has a high unemployment rate; and
  -- by one percentage point if the State has third party and fraud and abuse recoveries exceeding one percent of the Federal matching payment.

- Each State subject to a reduction under the preceding section was also given the opportunity to increase its Federal Medicaid payment by holding its increase in Medicaid outlays under a target rate. For FY 1982, each State's target was set at 109 percent of its Federal payment for FY 1981. In subsequent years, the target is set by increasing the FY 1982 target by the increase in the medical care component of the CPI. States with expenditures below the target receive an incentive payment in the following year. For fiscal years 1983 through 1985, States with Medicaid increases less than the target amount will receive from HHS an amount equal to the lesser of:

  -- the difference between the Federal Medicaid payment to the State for the preceding fiscal year and the State's target amount for that fiscal year, or
  -- the amount of the reductions imposed on the State for the preceding fiscal year (as described in the preceding bullet).

- OBRA also gave States greater flexibility in administering their Medicaid programs, including broader authority to determine how they pay health care providers, to substitute home- and community-based care for institutional care, and to limit a beneficiary's free choice of health care provider.

Option 9: Mandatory Copayments Under Medicaid

- On outpatient services, categorically needy beneficiaries would be charged a $1 copayment per visit. Medically needy beneficiaries would be charged $1.50 per visit.

- On inpatient hospital services, the categorically needy would be charged $1 per day. The medically needy would be charged $2 per day.

Effect on Federal Benefit Outlays
(in millions)

	FY 84	FY 85	FY 86	FY 87	FY 88	5-Year TOTAL
Medicaid Outlays	$-320	-359	-398	-452	-500	-2029

Option 10: Extend OBRA's Reduction in the Federal Share of Outlays and Provide Incentives for States to Reduce Spending

- In FY 1985 and all subsequent years, Federal payments to each State for Medicaid would be reduced by 3.0 percent, thus extending the reductions in OBRA.

- As in OBRA, States would be able to "earn back" part of the reduction if they have a hospital cost review program, a high unemployment rate, or high fraud and abuse recoveries, or if they hold Medicaid outlays below the target level of expenditures established in OBRA.

- For States whose expenditures exceed the target established by OBRA, Federal payments would be reduced by an additional one-quarter of one percent for each percent by which the State is over its target. This would be effective in FY 1984.

Effect on Federal Benefit Outlays
(in millions)

	FY 84	FY 85	FY 86	FY 87	FY 88	5-Year TOTAL
Medicaid Outlays	$-615	-1445	-1810	-2225	-2790	-8,885

Comment: This approach results in higher reductions at the margin for States whose expenditures greatly exceed the target level of expenditures. In effect, a State that is 5 percent over the target loses 27.5 percent of its Federal payments for the last dollar of State expenditures. A State that is 50 percent over target loses 50 percent of its Federal payment for the last dollar of State expenditures.

Private Insurance

Current law

Unlike cash wages, an employer's contribution to an employee health plan is not taxable income to the employee. The employer may, however, deduct the health plan contribution as an ordinary business expense. Furthermore, the employer does not pay FICA or FUTA taxes on health plan contributions. Health benefits receive this preferential tax treatment regardless of the structure of the health plan.

Following are two alternatives for changing the tax treatment of employment-based insurance.

Option 11A: Limit the Amount of Employer-Paid Health Benefits that are Tax-Free to the Employee

- The amount of tax-free health insurance an employee can buy would be limited to $175 per month per family and $70 per month per individual. Employer contributions above that amount would be included in the employee's taxable income and subject to the employer's share of FICA and FUTA. The entire contribution would still be deductible by the employer as a business expense.
- The $175/$70 limit would be indexed to rise with the consumer price index.

Effect on Federal Revenues*
(in millions)

	FY 84	FY 85	FY 86	FY 87	FY 88	5-Year TOTAL
General Revenues	+$1900	+3400	+4600	+6100	+8100	+24,000
FICA	+$600	+1200	+1700	+2200	+3000	+8700
TOTAL	+$2500	+4600	+6200	+8300	+11,100	+32,700

* Columns may not add due to rounding.

Comment: The purpose of this proposal is to make the tax law more neutral in the employee's choice between health benefits and cash wages. In 1984, this exclusion limit would affect about 28 percent of all insured workers with family coverage and about 31 percent of those with individual coverage. By 1988, these percentages would rise to 55 percent and 56 percent, respectively.

Options 11B: Limit the Amount of Employer-Paid Health Benefits that are Tax Deductible to the Employer

- Unlike Option 11A, this proposal would affect employer taxes, not employee taxes. It is presented as an alternative to Option 11A, not to be combined with Option 11A.
- Employers would not be permitted to deduct more than $175 per month for family health insurance coverage and $70 per month for individual coverage.
- As under Option 11A, the $175/$70 limit would be indexed to rise with the consumer price index.

Effect on Federal Revenues*
(in millions)

	FY 84	FY 85	FY 86	FY 87	FY 88	5-Year TOTAL
General Revenues	+$1400	+3000	+3900	+5100	+6700	+20,100
FICA	+$200	+400	+600	+900	+1400	+3,500
TOTAL	+$1600	+3400	+4500	+6100	+8100	+23,700

* Columns may not add due to rounding.

Comment: This proposal is based on the premise that a proposal affecting employer taxes would be less controversial than one affecting employees. Employers that do not pay taxes (for example, non-profit organizations and corporations that are losing money) would be unaffected by this proposal.

* * * *

Note: The interagency group that developed this package of options considered two other proposals affecting the tax treatment of private health insurance:

- requiring employers to include catastrophic coverage in their health plans; and

- requiring employers to include 25 percent coinsurance on hospital services.

Although the interagency group supports these proposals as a matter of policy, it is not recommending them for this package. The members of the group are concerned that requiring catastrophic coverage and hospital coinsurance would jeopardize enactment of Option 11A or Option 11B.

MEDICARE

		FY 84	FY 85	FY 86	FY 87	FY 88	5-YEAR TOTAL
Option 1:	Part A Catastrophic	$-960	-1730	-1970	-2200	-2460	-9320
Option 2:	Increase Part B Premium (increased revenue shown as -)	$-525	-2335	-3280	-4445	-5805	-16,390
Option 3:	Voluntary Voucher Program*	$+ 50	+50	+50	+50	+50	+250
Option 4:	Prospective Payment (same savings as in TEFRA)	$ 0	0	0	0	0	0
Option 5:	Index Part B Deductible	$- 50	-125	-215	-310	-410	-1110
Option 6:	Limit DME for Home Health	$- 15	-15	-20	-20	-25	-95
Option 7:	First Full Month Eligibility	$-230	-270	-310	-350	-400	-1560
Option 8:	Competitive Bidding for Labs and DME	$- 9	-14	-20	-35	-55	-133
Medicare Subtotal		$-1739	-4439	-5765	-7310	-9105	-28,358

* This estimate is being revised by the Medicare actuaries.

MEDICAID

	FY 84	FY 85	FY 86	FY 87	FY 88	5-YEAR TOTAL
Option 9: Mandatory Copayments	$-320	-359	-398	-452	-500	-2029
Option 10: Reduction in Federal Share	$-615	-1445	-1810	-2225	-2790	-8885
Increased Medicaid Outlays Due to Medicare Proposals	$+114	+315	+414	+523	+653	+2019
Medicaid Subtotal	$-821	-1489	-1794	-2154	-2637	-8895
Total Effect on Medicare and Medicaid Outlays	$-2560	-5928	-7559	-9464	-11,742	-37,253

PRIVATE INSURANCE

		FY 84	FY 85	FY 86	FY 87	FY 88	5-YEAR TOTAL
Option 11-A:	Employee Exclusion Limit						
	General Revenues	$+1900	+3400	+4600	+6100	+8100	+24,100
	FICA	$+600	+1200	+1700	+2200	+3000	+8700
				OR			
Option 11-B:	Employer Deduction Limit						
	General Revenues	$+1400	+3000	+3900	+5100	+6700	+20,100
	FICA	$+200	+400	+600	+900	+1400	+3,500
Tax Revenue Subtotal							
	with Option 11-A	$+2500	+4600	+6200	+8300	+11,100	+32,700
	with Option 11-B	$+1600	+3400	+4500	+6100	+8100	+23,700
Total Effect on Budget Deficit							
	with Option 11-A	$-5060	-10,528	-13,759	-17,764	-22,842	-69,953
	with Option 11-B	$-4160	-9328	-12,059	15,564	-19,842	-60,953

Health Care Incentives Project

A series of proposals have been developed by a Working Group for the Cabinet Council on Human Resources. The objectives of this package are:

1. To redirect the incentives of the health care system, thereby encouraging efficiency and cost-containment;

2. To reduce the growth in Federal spending for Medicare and Medicaid; and

3. To improve the Medicare program, by providing protection against catastrophic loss due to hospitalization.

Several options for changes in the Medicare program are suggested. The amount that the average beneficiary pays would be increased, by requiring copayment early in each hospitalization. The increased copayments would reduce the present incentives toward unnecessary utilization of hospital services. Also, higher copayments would relieve the Hospital Insurance Trust Fund, moving it toward solvency. Importantly, the fear of catastrophic loss would be eliminated.

The premium for Supplementary Medical Insurance would also increase, partially restoring the original intent that premium income pay for half the cost of this program. Over time the premiums would come to cover forty percent of the costs. This would be done while guaranteeing that no one's Social Security check would be reduced.

Several other Medicare changes are suggested, including changing the system of hospital payment to give hospitals cost-control incentives.

In keeping with the dual State-Federal role in Medicaid, the suggested changes in this program are directed at assisting the States in controlling costs, by giving them the tools to do it, and additional incentives through limits on federal participation.

The Federal government has supported the growth of private health insurance through tax policy that gives preference to health benefits over wages. This has helped cause the spiral in health care costs. A proposal is suggested for capping the amount of tax-free health benefits, to provide an incentive toward more efficient and cost-containing benefit packages.

Although they are presented as separate options, these components are suggested as a coherent package that addresses severe, long-standing problems in the health care system.

SOURCE: Office of Policy Development 1/3/83