FINANCIAL CONDITION OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

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THURSDAY, FEBRUARY 29, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Committee met, pursuant to notice, at 10:12 a.m., in room 1100, Longworth House Office Building, Hon. Bill Archer (Chairman of the Committee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE CONTACT: (202) 225-1721
February 21, 1996
No. FC-11

Archer Announces Hearing on Financial Condition of Federal Hospital Insurance Trust Fund

-Report Shows Trust Fund Spending Exceeds Revenues-

Congressman Bill Archer (R-TX), Chairman of the Committee on Ways and Means, today announced that the Committee will hold a hearing to review the current financial condition of the Federal Hospital Insurance Trust Fund. **The hearing will take place on Thursday, February 29, 1996, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.**

The Committee will receive testimony from Federal Hospital Insurance Trust Fund Trustees and other Administration witnesses.

BACKGROUND:

The payroll taxes paid by working Americans and employers into the Federal Hospital Insurance Trust Fund (HI Trust Fund) pay for about 60 percent of the medical care for Medicare beneficiaries. The Hospital Insurance program (Medicare Part A) is obligated to cover the costs of inpatient hospital care and other related services for those Americans who are entitled to insurance coverage under Medicare Part A.

A recent story in the *New York Times* indicates that the HI Trust Fund is in financial imbalance. Beginning late in 1995, the HI Trust Fund has spent more in outlays than it received in income.

Currently, payroll taxes from about four workers cover the Medicare Part A costs on average for each beneficiary. This ratio worsens over time, and drops precipitously when the baby boomers become eligible for Medicare after the year 2010. It is noteworthy, however, that the current financial imbalance in the HI Trust Fund occurs prior to the eligibility of baby boomers and is occurring months earlier than had even been projected in the 1995 report of the Trustees of the HI Trust Fund.

"This new information on the HI Trust Fund is an early warning signal that cries out for immediate Congressional attention. I am very concerned about the manner in which this information was conveyed to the public and its implications for the future solvency of the Medicare program," Archer said.

FOCUS:

This hearing will focus on the manner in which the information concerning the Medicare shortfall was made available to the public and will review the financial status of the HI Trust Fund.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement, with their address and date of hearing noted, by the close of business, Thursday, March 14, 1996, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 300 additional copies for this purpose to the Committee office, room 1102 Longworth House Office Building, at least one hour before the hearing begins.

(MORE)

WAYS AND MEANS COMMITTEE
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FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are now available over the Internet at GOPHER.HOUSE.GOV, under 'HOUSE COMMITTEE INFORMATION'.

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Chairman ARCHER. The Committee will come to order.

I am informed that the Secretaries do have a limited timeframe, which is understandable with all their duties, so unfortunately, the vote on the floor of the House has delayed some of our Members from returning, but it is my intention to proceed, and they will be able to participate as they arrive.

I am pleased to welcome two of the major members of the President's Cabinet before the Committee today, and Madam Secretary, Mr. Secretary, thank you both for taking the time to join us today.

We want to discuss the latest information concerning the financial condition of the Medicare Trust Fund. As you know, last April, Congress was informed by the Medicare Board of Trustees that the Trust Fund would be insolvent and unable to pay its bills in the year 2002. That, of course, was a best judgment projection based on the data available at that time. The Trustees also told us that Medicare would run surpluses through fiscal year 1997, at which time the Fund would then begin to spend more than it took in annually. But on February 5 of this year, the story appeared in the press stating that the condition of the Trust Fund was worse than expected. That story, which quoted Medicare's chief actuary, reported that the Trust Fund actually started losing money in fiscal year 1995, 2 years earlier than was projected at roughly this same time last year.

Considering the fact that a surplus was expected in 1995, I personally consider this unexpected shortfall to be an important milestone in the history of Medicare. Some might argue that it does not matter. Medicare, they say, was going broke anyway, so what difference do a couple of years make? But I personally believe that it makes a great difference.

Too often, the Congress and the White House are unable to reach agreements on important issues until the very last minute. For Medicare, if the last minute moves up in an unexpected way, we will lose the luxury of shoring up the program with relatively modest solutions. Every day the Trust Fund loses money, our options become more and more difficult. That has been confirmed by other witnesses before this Committee in the last year.

In fact, this week, we have learned that Medicare's financial condition is deteriorating faster than even this new information suggests. Chairman Thomas has received new data concerning the Trust Fund's balance for the first 4 months of this fiscal year, and it shows that Medicare appears to be in far worse shape than even last year.

Secretary Shalala, you are a Medicare Trustee, and Secretary Rubin, you are a Trustee, and you are Medicare's managing Trustee. As such, you enjoy a heightened responsibility to this Committee and to the public on all issues, but especially for this Committee's oversight responsibilities of the Trust Fund, your opinions and evaluations are extremely important to us.

The purpose of this hearing is to assess what this latest news means for the solvency of the Trust Fund. We are also here to discuss the manner in which the news of the shortfall was made available to the public. I am concerned that the news of the shortfall was buried at a time when key budget negotiations were under way. It was revealed in a sliver of a 45-page statement issued by

Secretary Rubin and the Office of Management and Budget Director Alice Rivlin on October 27.

This statement listing the entire receipts and outlays in great detail of every function of the Federal Government was mailed to congressional offices and to numerous government agencies. It was not, however, made public or made available to the press.

I personally believe this was an inadequate and inappropriate way to highlight a major milestone in Medicare. While I have no doubt that you can cite some technicians who were able to find this needle in a haystack, I do not think this manner of disclosure was sufficient to bring it to the attention of the public, to policymakers, or even to some of Medicare's own Trustees; and I suspect Secretary Rubin might possibly agree with that statement.

It should also be noted that the administrator of the Health Care Financing Administration did not become aware of this information until early December, more than 1 month after the release of the 45-page statistical printout. And my understanding is that Secretary Shalala did not become aware of it until mid-December.

When all is said and done, what does this new information mean? I conclude that we should continue our efforts to pass a bill that saves Medicare and do it this year. Chairman Thomas is working with a group of Democrats to develop a bipartisan bill that preserves, protects and strengthens Medicare. I hope he will be successful and that the Clinton administration will work with us to pass such a bill.

Separate and apart from this legislation, however, our Committee does have significant important oversight functions. These include reviewing the changing status of the Trust Fund and whether the Trustees adequately fulfilled their responsibilities and obligations as the leaders in whose hands the public puts that trust.

I am now happy to yield to the Ranking Minority Member, Mr. Gibbons, for a statement.

Mr. GIBBONS. Thank you, Mr. Chairman. I listened very closely to what you had to say, and this is not a time for us to bicker about the fact that we all missed the announcement that the Trust Fund was running out of money sooner than proposed. From what I know about the situation, our staffs were too busy, for good reason, to read all the detail of the reports that came to us and that come to us all the time. In fact, the press was too busy, everybody was too busy and just overlooked the situation. That is regrettable.

But that is water over the dam, and it is time for us to go forward. I think we as Democrats are willing to tell you and the other Members of this Committee and the public that we want to sit down with this Committee at the earliest possible date to try to work out the differences we have over Medicare. We want to save the program, and we do not want to pass any additional costs on to the beneficiaries. We believe there are ways in which the Part A Trust Fund can be saved, without any radical changes in it.

The President of the United States has put forward a program that would extend the program to the same extent, I believe, as far as your program would. There are many things in all of this that we can agree to and agree to rather readily, but I think all of us are going to have to be willing to do some working together to get that done. We do not want to be faced with having to beat back radical changes.

You must remember, and I am sure you do, that last year, when all of this debate began, you proposed to take $270 billion out of the Medicare Program. We just do not believe that is desirable. We would be willing to take out $124 billion and do it very readily and very quickly and save the Trust Fund.

So I am not going to throw any stones. I want to work with you. We Democrats want to work with you, and as soon as you call a meeting, we will put our program on the table, and we will respectfully reexamine yours.

I think that is about all that needs to be said.

Mr. MATSUI. Will the Ranking Member, Mr. Gibbons——

Mr. RANGEL. Mr. Chairman.

Mr. GIBBONS. Yes, but just very briefly. Go ahead.

Mr. RANGEL. All I would like to say, Mr. Gibbons——

Chairman ARCHER. Mr. Gibbons, let me say, in deference to the Secretaries' time, if we start opening statements by every Member of the Committee, there will be no time for him to make his presentation and no time for questions.

Mr. RANGEL. I am terribly sorry. I do not want to say anything, Mr. Gibbons.

Mr. Chairman.

Chairman ARCHER. Without objection, each Member will have the right to enter his written statement into the record.

If the gentleman from Florida wishes to yield briefly to another Member on his side for less than 1 minute, then certainly, that will be accommodated.

Mr. GIBBONS. Well, Mr. Rangel is our Ranking Member.

Mr. RANGEL. Well, I do not want too much democracy to spread over this Committee with Members making statements here. As a matter of fact, I have changed my mind. I think we ought to get a special prosecutor to look into this matter. I think it is a coverup. This whole damned idea of a "sliver" means that there is more information, and I think we ought to proceed. I yield back. [Laughter.]

Mr. GIBBONS. Maybe we could get Mr. D'Amato to look at it. [Laughter.]

OK. Thank you, Bill. We appreciate it.

Chairman ARCHER. Secretary Rubin, welcome to the Committee, and we will be pleased to receive your testimony. If you can summarize it, that will be helpful. Your entire statement will, without objection, be printed in the record, but certainly you are free to spend as much time as you like.

You may proceed.

Secretary RUBIN. Mr. Chairman, thank you very much. It is traditional for the Secretaries to testify in order of precedence, but in light of the fact that this is a Medicare issue, and the leading member of the Cabinet with respect to Medicare is Secretary Shalala, our view was that Secretary Shalala would testify first, and I would testify second, if that is acceptable to you.

Chairman ARCHER. Of course.

You may proceed, Secretary Shalala. Welcome to the Committee. We are happy to receive your testimony.

STATEMENT OF HON. DONNA E. SHALALA, SECRETARY, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Secretary Shalala. Mr. Chairman, Congressman Gibbons, thank you for the invitation to join you today. I welcome the opportunity to discuss with you the status and the future of the Medicare Hospital Insurance Trust Fund.

Since the day he took office in 1993, the President has devoted himself to improving the availability and affordability of medical care in this country, especially for those who rely on Medicare—our senior citizens and those who are living with disabilities.

In his first year in office, the President's economic recovery program breathed new life into the Medicare Trust Fund, extending the fiscal solvency of the Part A Trust Fund by 3 full years for that critical program. And I would note that that legislation passed without a single Republican vote in either House of Congress.

Last year, and now this year, the President is again proposing measures to extend the fiscal solvency of the Part A Trust Fund. As part of his comprehensive plan to balance the Federal budget in 7 years, the President has proposed $124 billion in Medicare reforms that would extend the life of the Part A Trust Fund for more than a decade from now.

Throughout this process, the administration's policies on Medicare have been based on three basic principles: First, that Medicare should be a more prudent purchaser of health care services for the 37 million beneficiaries who depend on it. Second, senior citizens need greater choice of high-quality health plans that also preserve the important consumer and financial protections Medicare promises. And third, we must increase our effort to root out waste, fraud and abuse of the Medicare Program.

These are the elements that must form the basis of any agreement we reach to balance the Federal budget, and the good news is that those elements are on the table in both the President's plan and some of the proposals made by the majority party in Congress.

Our job is to come to an agreement on those elements while discarding proposals that would weaken the Trust Fund and endanger the physical and financial health of beneficiaries. For example, it is our firm belief that we should not dramatically increase out-of-pocket expenses for senior citizens when they are already spending 20 percent of their own limited income on medical expenses not covered by Medicare.

We also should not eliminate important limitations on balance billing that protect seniors against overcharging by providers.

We should not open the Medicare Program to untried and untested health care approaches, like medical savings accounts, which have been estimated to cost Medicare more than $4 billion rather than save Medicare money. And we should not weaken our efforts against fraud and abuse at a time when we have finally begun to win the battle against those who would abuse the system for their own financial gain.

As the President has said, the elements of a bipartisan agreement to balance the budget in 7 years are on the table. The question is whether we can come together and approve those elements this year. In light of the Trust Fund's short-term financing problems, we would urge that this be accomplished sooner rather than later.

We would also urge that we will be more likely to accomplish this if Republicans set aside their proposals that harm the Medicare Trust Fund and harm beneficiaries.

Now I would like to turn to the question of the current financial health of the Part A Trust Fund. Mr. Chairman, I am deeply concerned about recent allegations from Members of the majority party in this Congress of a breach of trust by this administration in its oversight of the Part A Trust Fund. Nothing could be further from the truth.

Far from a breach of trust, the administration has worked hard to protect Medicare and the Trust Fund as I have just outlined.

I want to take this opportunity to walk you through the process through which the administration and the Medicare Trustees' Report to Congress on the Trust Fund. I would like to submit for the record a copy of my February 12 letter to the Committee on this subject. By law, the Medicare Trustees submit their annual report on the status of the HI Trust Fund to Congress each spring. The law specifically requires the Trustees to report on the performance of the Trust Fund in the prior fiscal year.

In their report, the Trustees also make projections about future performance and solvency. The report is widely distributed to the Congress and to the public.

In addition to the statutory requirement to issue an annual report, other specific statutory requirements ensure that Congress will be notified if the outlook for the Part A Trust Fund is particularly critical.

For example, the law requires the Trustees to notify Congress if the Trust Fund's assets are expected to fall below 20 percent of 1 year's expenditures in the short term, which the Trustees have used to mean 10 years. The Trustees have sent this special notification, known as a "section 709 letter" along with their annual reports during each of the last 3 years.

The section 709 letter sent to congressional leaders in April 1995 indicated that the Trustees projected that the HI Trust Fund would be depleted in 2002.

In addition to the annual report, the administration prepares semiannual estimates of the financial operations of the HI Program as part of the President's budget process. Each year, the administration releases Medicare baseline projections as part of the President's budget proposal for the upcoming fiscal year. These estimates for fiscal year 1997 will be released next month as part of the President's fiscal year 1997 budget submission to Congress.

The Treasury Department, which serves as the official bookkeeper of government outlays and revenues, reports retrospectively on outlays from and revenues to the Part A Trust Fund. These reports show actual cash flows to and from the HI Trust Fund, in contrast to the projections in the Medicare Trustees' Report and the projections in the President's budget.

In October 1995, the Treasury Department reported on the Trust Fund income and outlays, together with the Fund's assets at the end of fiscal year 1995.

The Treasury reports are widely distributed to each Member of Congress, to the Congressional Budget Office, this Committee, the House and Senate Budget Committees, the Senate Finance Committee, and others on request.

The data provided in the Treasury reports are analyzed by a variety of public and private agencies and organizations. For example, in November of last year, the Congressional Budget Office reported on the Treasury data for fiscal year 1995 in a report entitled, "Analysis of the September Treasury Statement."

In addition, CBO used this data to update their Medicare baseline in December 1995, which reflects the higher growth on part A spending and the lower growth on part B spending.

Furthermore, the American Academy of Actuaries noted in its December 1995 report, "Comments and Recommendations on Medicare Reform," that the total expenditures exceeded income for the Hospital Insurance Trust Fund in 1995.

On February 12, 1996, in a bulletin released by the Senate Budget Committee, Chairman Domenici acknowledged having received the Treasury data in October and noted, "The recent changes in projections do not significantly affect the longrun Medicare situation."

I would now like to talk specifically about how one should interpret the information that is provided in the Trustees' Report.

The primary purpose of the Trustees' Report is to provide estimates of the future financial status of the Trust Fund for use by the Congress in making decisions about the Medicare Program. Because of the uncertainty inherent in projections, the future status of the Trust Fund is examined under three alternative sets of assumptions: "intermediate," "low cost" and "high cost." The intermediate set of assumptions represents the Trustees' best estimate of expected future economic and demographic trends—in employment, in wage increases, in health care prices, and utilization and other factors that will affect the financial status of the Trust Fund.

Each year, the Trustees' projections are updated, using the most recent available information on several factors, including inflation, wages, and utilization. One of those factors is actual experience in the past year.

For example, the Treasury report released in October provided actual cash revenues and outlays from the Part A Trust Fund for fiscal year 1995. This information on actual experience will be incorporated into future projections.

In summary, projections in the Trustees' Report are routinely updated to reflect actual experience and new economic data, but the projections themselves remain estimates of the future of the Medicare HI Trust Fund. Any given projection of Trust Fund status, by its very nature, cannot be expected to exactly mirror actual experience.

The Trustees construct our projections with the best and most recent information available and continually benchmark projections against actual results to obtain feedback on improving our methodology. Consequently, the Trustees' projections provided the most useful guides available to decisionmakers in addressing the issues of an uncertain future.

The 1995 Trustees' Report projected that under the intermediate assumptions, the HI Trust Fund would be depleted in 2002. This depletion date was 1 year later than was projected in the 1994 Report. The estimates under the "low cost" and "high cost" alternatives ranged from 2001 to 2006, and both of those numbers were included in our 1995 Trustees' Report. The Trustees estimated that HI Trust Fund income would exceed expenditures by $4.7 billion in fiscal year 1995; income would approximately equal expenditures in fiscal year 1996, and income would fall short of expenditures by approximately $5 billion in fiscal year 1997. However, as you know, actual expenditures exceeded revenues for fiscal year 1995 by $36 million.

The 1995 Trustees' projections were within a reasonable range of variation, as they have been over the past several years. Let me repeat that. The 1995 Trustees' projections were within a reasonable range of variation, as they have been over the past several years.

In each of the past 10 years, actual HI income has been within approximately 1.5 percent of projections in either direction. Actual HI expenditures exceeded projections in 6 of the last 10 years by amounts ranging from 0.4 percent in 1993 to 5.6 percent in 1992. Projections were higher than actual experience in 4 of the last 10 years, by amounts ranging up to 2 percent. This past year, in fiscal year 1995, total HI income was 1.2 percent less than projected, and expenditures were 3.1 percent greater than projected. Thus, the 1995 variation was within a normal range of variation.

Considering the complexity of the projections at stake, the Office of the Actuary has a very good track record with its estimates. By way of comparison, the Congressional Budget Office March 1995 baseline projections for HI were very comparable to the Trustees' Report projections and estimated a surplus in fiscal year 1995.

Moreover, a comparison of Trustees' Report and Congressional Budget Office projections of total Medicare spending, when the projections were made during the actual year in question, shows similar ranges of differences between projections and actual spending. Over the period 1987–95, the Trustees' Report overestimated same year spending four times and underestimated same year spending two times, and came within $1 billion twice; CBO overestimated spending three times, underestimated spending three times, and came within $1 billion on two occasions.

We fully recognize that you are very interested in having the most up-to-date projections of the HI Trust Fund depletion, and the Trustees will provide them to you as soon as they become available. Without the detailed analysis that these projections involve, it is too soon to draw firm conclusions about the extent to which the performance of the Trust Fund in fiscal year 1995, or any other factors, will affect the Trust Fund's estimated depletion date.

Despite the fact that these projections are not yet available, the HCFA actuaries have made an interim calculation based on incomplete information, suggesting that the projected Trust Fund depletion date would move back from 2002 to 2001.

However, this interim projection is preliminary and incomplete since it does not take into account any other changes in the data or assumptions that are currently being reviewed.

Finally, this projection is subject to change and the Trust Fund depletion date substantially delayed, if the Congress acts soon to adopt the constructive Medicare reforms that this administration has recommended.

In closing, let me again thank you for allowing me to appear before you today to set the record straight regarding the status of the HI Trust Fund. Although the status of the HI Trust Fund may be slightly worse than projected last year, the long-term outlook for Medicare has not changed and requires action. Without intervention, the Trust Fund will be exhausted within the next 5 years or so.

To meet this challenge, the President has submitted a 7-year balanced budget plan that ensures that the Trust Fund will remain solvent for more than a decade from now and provides us with an opportunity to tackle the longer term issues in a measured fashion.

We should move forward in a responsible bipartisan manner to enact these changes, as the Medicare Program requires and as the citizens we serve expect.

Thank you.

[The prepared statement and attachments follow:]

STATEMENT OF DONNA E. SHALALA
SECRETARY
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Thank you for the opportunity to address the Committee on the performance of the Medicare Hospital Insurance Trust Fund in 1995. Since coming into office, the Clinton Administration has worked continually to address the problems affecting the Trust Fund, and we are hopeful that we can find common ground with this Committee and with the Congress this year on reforms to the Medicare program that will strengthen the Fund.

It should be remembered that it was the Clinton Administration and Congressional Democrats who argued successfully for the President's 1993 five-year deficit reduction package (OBRA '93) which extended the life of the Trust Fund by an additional three years by achieving realistic Medicare savings and by stimulating economic growth in the general economy.

The Administration has continued our commitment to controlling Medicare costs in the future. As part of his comprehensive plan to balance the Federal budget, the President has proposed $124 billion in specific policy changes designed to strengthen Medicare. The President's proposal extends the life of the HI Trust Fund for more than a decade from now.

To achieve these savings, the Administration's plan modifies Medicare payments in a number of ways. Our plan achieves substantial savings through provider payment changes that promote greater efficiency and make Medicare a more prudent purchaser and through increased efforts to combat waste, fraud and abuse. Importantly, it does so while maintaining and strengthening key protections for the beneficiaries Medicare serves.

The Administration plan represents a balanced approach -- one that protects traditional Medicare while expanding choice and preventive benefits. First, our proposal does not impose additional costs on beneficiaries; the plan maintains Part B premiums at 25% of program costs. Second, the plan maintains important protections for low-income Medicare beneficiaries. Third, the package expands the range of private plans available under Medicare without harming the traditional fee for service program, inviting dangerous risk selection, or shifting costs to beneficiaries. Finally, the Administration maintains critical prohibitions against "balance billing", which protects the programs 37 million beneficiaries from excessive charges from providers. I am hopeful that in the weeks ahead we can all focus our efforts on positive steps to enact such proposals.

I am concerned about recent allegations of a "breach of trust" by the Administration in its oversight of the HI Trust Fund. Far from a "breach of trust", the Administration has spent the past year focusing on the need to improve the Medicare program and uphold our commitment to current beneficiaries and future generations.

I would like to take this opportunity to clarify the process through which the Administration and the Trustees report to Congress on the Trust Fund, as I did in my letter to the Committee dated February 12, 1996, which is attached to this statement. The Administration has consistently made information about historical and projected performance of the HI Trust Fund available to Congress and the public. Section 1817 (b) of the Social Security Act requires the Medicare Trustees to submit their annual report on the status of the HI Trust Fund to Congress in the Spring. The law specifically requires the Trustees to report on the performance of the Trust Fund in the prior fiscal year. In their report, the Trustees also make projections about future performance and solvency. The report is widely distributed. Copies are provided to each Congressional office and to many others.

In addition to the statutory requirement to issue an annual report, other specific statutory requirements ensure that Congress will be notified if the outlook for the HI Trust Fund is particularly critical. For example, under section 709 of the Social Security Act, the Trustees are required to notify Congress if the Trust Fund assets are expected to fall below 20 percent of one year's expenditures in the short term, which the Trustees have used to mean 10 years. The Trustees have sent this special notification, known as a "section 709" letter, along with their annual reports during each of the last three years. The section 709 letter sent to Congressional leaders in April 1995 indicated that the Trustees projected the HI Trust Fund would be depleted in 2002.

In addition to the annual report, the Administration prepares estimates of the financial operations of the HI program semi-annually as part of the President's Budget process. Each year, the Administration releases Medicare baseline projections as part of the President's budget proposal for the upcoming fiscal year. These estimates for fiscal year 1997 will be released next month by the Office of Management and Budget as part of the President's fiscal year 1997 Budget Submission to the Congress.

The Treasury Department, which serves as the official "bookkeeper" of government outlays and revenues, reports retrospectively on outlays and revenues to the HI Trust Fund. These reports show actual cash flows to and from the HI Trust Fund, in contrast to the projections in the Medicare Trustees Report and the projections in the President's Budget. In October 1995, the Treasury Department reported on the HI Trust Fund income and outlays together with the Fund's assets at the end of fiscal year 1995. The Treasury reports are widely distributed to the Congressional Budget Office, House and Senate Budget Committees, this Committee, the Senate Finance Committee, each member of Congress, and others upon request.

The data provided in the Treasury reports are analyzed by a variety of public and private agencies and organizations. For example, in November of last year, the Congressional Budget Office reported on the Treasury data for fiscal year 1995 in a report entitled, "Analysis of the September Treasury Statement." In addition, CBO used the data to update their Medicare baseline in December 1995 which reflects the higher growth in Part A and lowers growth in Part B. Furthermore, the American Academy of Actuaries noted in its December 1995 report, "Comments and Recommendations on Medicare Reform" that the cost of benefits exceeded income for the Hospital Insurance Trust Fund in 1995. On February 12, 1996 in a bulletin released by the Senate Budget Committee, Chairman Domenici acknowledged having received the Treasury data in October, and noted that, "The recent changes in projections do not significantly affect the long-run Medicare situation."

I would now like to talk specifically about how one should interpret the information that is provided in the Trustees Report.

The primary purpose of the Trustees Report is to provide estimates of the future financial status of the Trust Fund for use by Congress in making decisions about the Medicare program. Because of the uncertainty inherent in projections, the future status of the Trust Fund is examined under three alternative sets of assumptions: "intermediate," "low cost" and "high cost." The intermediate set of assumptions represents the Trustees' best estimate of the expected future economic and demographic trends that will affect the financial status of the Trust Fund.

Health care expenditures tend to exhibit much more volatile rates of change than expenditures for many other private and social insurance programs. As the Trustees Report notes, projections are intended to illustrate how the HI program would operate under specified, reasonable assumptions concerning trends in employment, wage increases, health care prices, utilization, and other factors. Actual future Trust Fund operations will almost always differ somewhat from specific projections.

Each year the Trustees Report projections are updated using the most recent available information on several factors, including inflation, wages, and utilization. One of the factors is actual experience in the past year. For example, the Treasury report released in October provided <u>actual</u> cash revenues and outlays from the HI Trust Fund for fiscal year 1995; this information on actual experience will be incorporated in to future projections.

In summary, projections in the Trustees Report are routinely updated to reflect actual experience and new economic data, but the projections themselves remain estimates of the future of the Medicare HI Trust Fund. Any given projection of Trust Fund status, by its very nature, cannot be expected to exactly mirror actual experience. The Trustees construct our projections with the best and most recent information available, and continually benchmark projections against actual results to obtain feedback for improving our methodology. Consequently, the Trustees' projections provide the most useful guides available to decisionmakers in addressing the issues of an uncertain future.

The 1995 Trustees Report projected that the HI Trust Fund would be depleted in 2002 under the intermediate assumptions. This depletion date was one year later than was projected in the 1994 Report. The estimates under the "low cost" and "high cost" alternative ranged from 2001 to 2006. The Trustees estimated that HI Trust Fund income would exceed expenditures by $4.7 billion in fiscal year 1995; income would approximately equal expenditures in fiscal year 1996; and income would fall short of expenditures by approximately $5 billion in fiscal year 1997. However, as you know, actual expenditures exceeded revenues for fiscal year 1995 by $36 million.

The 1995 Trustees projections were within a reasonable range of variation, as they have been over the past several years. In each of the past ten years, actual HI income has been within approximately 1.5 percent of projections in either direction. Actual HI expenditures exceeded projections in six of the last ten years, by amounts ranging from 0.4 percent in 1993 to 5.6 percent in 1992. Projections were higher than actual experience in four of the last ten years, by amounts ranging up to 2 percent. This past year, in fiscal year 1995, total HI income was 1.2 percent less than projected and expenditures were 3.1 percent greater than projected. Thus, the 1995 variation was within a normal range of variation.

Considering the complexity of the projections at stake, the Office of the Actuary has a pretty good track record with its estimates. By way of comparison, the Congressional Budget Office's March 1995 baseline projections for HI were very comparable to the Trustees Report projections, and estimated a surplus in fiscal year 1995. Moreover, a comparison of Trustee Report and Congressional Budget Office projections of total Medicare spending, when the projections were made during the actual year in question, shows similar ranges of differences between projections and actual spending. Over the period 1987 to 1994, the Trustee Report overestimated same year spending four times, underestimated same year spending two times, and came within a billion dollars twice; CBO overestimated spending three times, underestimated spending three times and came within a billion on two occasions.

I know that you are very interested in having the most up-to-date projections of HI Trust Fund depletion, and the Trustees will provide them as soon as they become available. As I described earlier, the performance of the Trust Fund in fiscal year 1995 is just one of the factors upon which the HCFA actuaries base their projection of the Fund's performance over the longer term. The HCFA actuaries are in the process of completing the analyses they need to make these projections. Their projections will be included in the 1996 Trustees Report.

Without the detailed analysis that these projections involve, it is too soon to draw firm conclusions about the extent to which the performance of the Trust Fund in fiscal year 1995, or how the many other factors that affect the Fund, will affect the Trust Fund's estimated depletion date. Despite the fact that these projections are not yet available, the HCFA actuaries have provided the following interim calculation; using the (no longer current) assumptions from the 1995 intermediate Trustees Report estimate, but reflecting actual Fund operations in fiscal year 1995. Based on this incomplete information, the projected depletion date would move back from 2002, as projected in 1995, to 2001, as we projected in our 1994 Trustees Report. However, this projection is preliminary and incomplete since it does not take into account any other changes in the data or assumptions that are currently being reviewed. Finally, this projection is subject to change -- at a substantially lengthened time frame -- if the Congress acts soon to adopt the constructive Medicare reforms that this Administration has recommended.

In closing, I appreciate the opportunity to appear before you today to set the record straight regarding the status of the HI Trust Fund. Although the status of the HI Trust Fund may be slightly worse than projected last year, the long term outlook for Medicare has not changed. Without intervention, the Trust Fund will be exhausted within the next five years or so. To meet this challenge, the President has submitted a balanced budget proposal that insures the Trust Fund will remain solvent for more than a decade from now, and provides us with an opportunity to tackle the longer term issues in a measured fashion. We must move forward in a responsible, bipartisan manner to enact the President's Balanced Budget proposal as the Medicare program requires and as the citizens we serve expect.

APPENDIX A

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

FEB 12 1996

The Honorable Bill Archer
Chairman
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515-6348

Dear Mr. Chairman:

Thank you for your letter of February 5, 1996, regarding the status of the Hospital Insurance (HI) Trust Fund. As you know, the Clinton Administration has always been and remains committed to the fiscal integrity of the Medicare trust funds and to the health security of all our elderly. For this reason, I welcome the opportunity to set the record straight.

Your letter states that the HI Trust Fund "went broke" in 1995. This is simply not true. Far from being "broke", the Trust Fund's balance at the end of fiscal year 1995 was over $129,000,000,000 – sufficient under current law to carry the Fund past the end of the decade. During fiscal year 1995, expenditures from the Fund ($114.883 billion) slightly exceeded total income ($114.847 billion). The resulting $36 million deficit reduced the Fund's net assets from $129.555 billion at the beginning of fiscal year 1995 to $129.520 billion at the end of the year.

Almost a year ago in the 1995 HI Trustees Report, I and the other HI Trust Fund trustees pointed out that, without further action, the HI Fund would be depleted early in the next decade. Based upon the intermediate projections prepared by the HCFA actuary at that time, depletion was estimated to occur in the year 2002 (a slight change from the previous year's estimate of 2001). The Administration responded last summer by proposing a series of measures to extend the Fund. We have proposed additional steps in the President's budget for fiscal year 1997. Taken together, these proposals should extend the HI Fund for more than a decade from now.

As you know, each year the HCFA actuary and the Trustees develop projections of the future status of the Trust Fund. These projections cover a period of 75 years into the future. To reflect the uncertainty inherent in projection, the future of the Trust Fund is examined under three alternative sets of assumptions: "intermediate," "low cost," and "high cost". The intermediate set of assumptions represents the Trustees' best estimate of the expected future economic and demographic trends that will affect the financial status of the program. Estimates of future health care expenditures are inherently less certain than estimates for many other Federal programs because so many factors affect expenditures: changes in the number of beneficiaries, changes in the age and health status of beneficiaries, trends in health care inflation, increasing use of new technologies, and changes in the use of health services, among other factors.

Based on the intermediate set of assumptions, the 1995 Trustees Report published last April estimated a fund exhaustion date of 2002. The individual estimates for the next several years were as follows: (1) HI Trust Fund income would exceed expenditures by $4.7 billion in fiscal year 1995; (2) income would approximately equal expenditures in fiscal year 1996; and (3) income would fall short of expenditures by approximately $5 billion in fiscal year 1997.

The Congressional Budget Office also estimates the future operations of the Trust Fund. The Congressional Budget Office estimates were very similar to the intermediate Trustees Report estimates, and also projected a fiscal year 1995 surplus. For comparison purposes, the Congressional Budget Office estimates for fiscal year 1995 are shown below together with the intermediate estimates from the 1995 Trustees Report (amounts in billions).

	1995 Trustees Report	CBO March 1995 baseline	Actual
Income	$116.2	$116.6	$114.8
Expenditures	111.5	113.6	114.9
Net change in assets	4.7	3.0	-0.036
Assets at end of year	134.3	131.7	129.5

Actual expenditures in the Trust Fund were 3.1 percent higher and income was 1.2 percent lower than estimated by the HCFA actuaries. Such differences are within the range of normal variation.

In your letter, you asked when the Administration became aware of the performance of the Trust Fund in fiscal year 1995, and why the Adminstration did not make this information public until February 5th. The Adminstration became aware of the Fund's performance, and reported these results, more than three months ago.

Each month, the Treasury Department issues public reports that track cash income and outlays and the balance of the Trust Fund. Information on the HI Trust Fund income and outlays together with the Fund's invested assets at the end of fiscal year 1995 was reported in the "Final Monthly Treasury Statement of Receipts and Outlays of the United States Government". This information was released publicly by the Treasury Department on October 27, 1995.

The Treasury Department and the Office of Management and Budget distributed nearly four thousand copies of the October report to the public, including individual copies for every Member of Congress, with extra copies to the House and Senate Budget, Appropriations and Banking Committees, the Senate Finance Committee, the Congressional Budget Office, and to your Committee.

Furthermore, we know that interested parties read these reports. The American Academy of Actuaries noted the HI Fund's 1995 results in its "Comments and Recommendations on Medicare Reform" on December 21, 1995. Medicare outlays were also reported on by the Congressional Budget Office ("Analysis of the September Treasury Statement," November 7, 1995.)

In late November, the HCFA actuaries received more detailed information on the components of the income, outlays and Fund balance from the Treasury Department based on this report. The actuaries informed HCFA Administrator Bruce Vladeck of the Trust Fund's status on December 2, 1995. The Administrator subsequently briefed me on these findings in a meeting on December 9, 1995. The Administrator, as Secretary to the Board of Trustees, provided an interim report on the Trust Fund's performance for fiscal year 1995 at the Trustees' regular meeting on December 13, 1995.

Your letter also asked for the latest projections for the Trust Fund. The projections you described in your letter are made annually by the HCFA actuaries and included in the annual Trustees Report. It is important to note that the performance of the Trust Fund in fiscal year 1995 is just one of many factors upon which the HCFA actuaries base their projection of the Fund's performance over the longer term, and its projected depletion date. In making these projections, the HCFA actuaries not only analyze data concerning the actual experience in 1995, but also the additional experience in the current fiscal year, new analyses of the factors affecting HI benefit growth during fiscal years 1990-1995, updated projections of HI payroll tax income and revenue from the taxation of OASDI benefits and current interest rate expectations.

They are currently engaged in this very activity, and their projections will be included in the 1996 Trustees Report, as they are each year. Although the report is typically issued in April, the HCFA actuaries have informed me that this year's report may be delayed by about six weeks because of the government furlough and snow storms. We will of course make it available to your Committee, all Members of Congress, and the public as soon as it is completed.

Without the detailed analysis that these projections involve, it is too soon to draw firm conclusions about the extent to which the performance of the Trust Fund in fiscal year 1995, or the many other factors that affect the Fund, will affect the Trust Fund's estimated depletion date. Despite the fact that these projections are not yet available, the HCFA actuaries provided the following calculation: using the (no longer current) assumptions from the 1995 intermediate Trustees Report estimate, and reflecting only the actual Fund operations in fiscal year 1995, they calculate that under those outdated assumptions the projected depletion date would move back from 2002, as estimated in 1995, to 2001, as estimated in 1994. This estimate does not take into account changes in any of the many other data and assumptions that are being reviewed, including such obviously important factors as economic performance, current interest rate expectations, health care costs, HI payroll tax income and revenue from the taxation of OASDI benefits.

In closing, let me emphasize that the most important issue is for the Congress, working with the Administration, to take the steps necessary to strengthen the Medicare trust funds. One year's results will not change the need to strengthen the HI Trust Fund. As you know, the President's 1993 Economic Plan added three years to the life of the Fund. The President, in his seven-year balanced budget plan, has proposed additional measures. The Congress, too, has made proposals in this area. I am hopeful that, working together, we can agree upon necessary changes to the Medicare program, which is so essential to the security of all Americans.

A similar letter is being sent to the co-signers of your letter.

Sincerely,

Donna E. Shalala

Donna E. Shalala

cc: The Honorable Sam M. Gibbons

APPENDIX B

Budget Bulletin

Pete V. Domenici - Chairman
G. William Hoagland - Staff Director
621 Senate Dirksen Building • 202/224-0615

A Weekly Bulletin produced when the Senate is in session by the Senate Budget Committee - Majority Staff

104th Congress, 2nd Session; No. 5

February 12, 1996

INFORMED BUDGETEER

AGRICULTURE'S CONTRIBUTION TO BALANCE?

- The Senate passed the Farm Bill (S.1541) on February 7, 1996, by a vote of 64 to 32. The SBC majority staff estimates that the bill, as amended, will cost $0.1 billion over 7 years from the December 1995 baseline. The Balanced Budget Act of 1995 reduced farm spending by $4.6 billion over 7 years.

BUDGETARY IMPACT OF AGRICULTURE LEGISLATION ($ in Billions)	
Balanced Budget Act of 1995	-4.6
Farm Bill (S. 1541)*	0.1
Amount of Lost Savings	4.7

*Preliminary SBC majority staff estimates.

THE BUDGET DIDN'T STAY BALANCED FOR LONG

- President Clinton's *January 6th budget* achieved a surplus of $1 billion in 2002 according to CBO. The budget outline that President Clinton issued on February 5th is different from the January budget proposal. While the President's February outline claims to achieve a surplus of $3.7 billion in 2002, if scored by CBO *it* will show a deficit of $9 billion instead.

- Table 1 (page 15) of the President's budget outline is the most important piece of evidence *underlying* the President's claim of a surplus. The table—entitled "The President's Budget Proposals Under CBO Assumptions"— says it uses CBO December economic and technical assumptions. Except when it doesn't. The President uses box text and footnotes to muddy the waters and *depart* from CBO's numbers— once again.

- The first line of the table purports to show CBO's December estimate of the baseline deficit. The line, however, has a footnote that "OMB has adjusted CBO's December baseline to... reflect the pending Supreme Court review of a lower court decision on accounting for 'goodwill'." In effect, the President pretends to use the CBO baseline and estimates, as the Congress has insisted and as he seemingly agreed to, but now changes the baseline or ignores the estimate when it suits his purposes.

- Let's look at this change to the CBO baseline, as well as a change to CBO's estimate of a proposal on spectrum, which make the President's job of eliminating the deficit $18.5 billion easier in 2002 and $26 billion easier over seven years.

"Goodwill" Turns into Ill Will

- The September 11, 1995, *Bulletin* related how a federal appeals court decided (vote of 9-2) that a 1989 federal law broke a contract between a savings and loan institution and a federal regulator/deposit insurance agency, which could wind up costing the federal government from $10 billion to $20 billion. (The federal agency had encouraged the S&L to buy other failed S&Ls with the promise that the buyer could employ favorable accounting treatment of "supervisory goodwill"; the subsequent 1989 law reversed that agreement, costing the S&L millions.)

- The Supreme Court just recently agreed to review this case, with arguments expected in April, and a decision by the end of the term in June. Given the lopsided nature of the appeals court's decision, CBO, in developing its December baseline, had to consider the possibility that the Supreme Court would uphold the decision and some payments would be made from the Treasury.

- If CBO estimated that zero payments would be made (which is OMB's position, as it assumes the federal government will win its appeal at the Supreme Court), it would be, in effect, predicting the outcome of the case: the Supreme Court overturns. On the other hand, if CBO estimated that $20 billion would be paid out of the Treasury, *it would be predicting that the* federal government would lose and would have to pay the maximum amounts that have been claimed as damages. In its December baseline, CBO did not predict the outcome of the case, but rather selected an approximately middle estimate of $9 billion in payments spread evenly over 1997-2002 to minimize the magnitude of error, whatever the outcome at the Supreme Court and any subsequent awards or settlements for damages.

- The Administration, after finally agreeing to using CBO assumptions in determining if a budget plan gets to balance in 2002, promptly reneged on that understanding by taking the $9 billion out of the CBO baseline shown in their budget.

OMB to CBO: Forget I Even Asked About Spectrum

- Even as the President attempts to cloak his budget with the mantle of CBO scoring, his picking and choosing among individual CBO estimates makes the fit more like the emperor's new clothes. Again on page 15 of the budget the President claims to use "(1) CBO estimates of proposals where available and (2) OMB estimates based on CBO's December baseline where specific CBO estimates are not available." The most clever but obvious example of this is the "Other mandatory" line of table 1 where savings of $8.1 billion in 2001 magically escalate to $26 billion in 2002. What accounts for this?

- In 2002, the President assumes he will auction spectrum that will be returned by television broadcasters (in 2005), and that if the auction does not generate $17 billion, then broadcasters will be charged a fee on their remaining spectrum to make up the difference between the auction proceeds and the target of $17 billion. CBO estimates an auction of returned spectrum would yield $6 billion. OMB could not get CBO to estimate its scheme would ever realistically produce $17 billion in 2002, but did not want to use the CBO estimate of $6 billion. So OMB disregarded the CBO estimate, claiming it was unavailable and using its own estimate instead.

- Combining this convenient omission of the CBO estimate (worth $11 billion in 2002) with the beneficial scorekeeping adjustments above produce a $13.6 billion difference from CBO. That means that if all CBO numbers were used for these items alone, the President's budget, rather than being in surplus, would have a $9 billion deficit in 2002.

TRUST FUNDS 101: C-, CONSPIRACY 101: F

- A recent New York Times article indicated that Medicare Hospital Insurance (HI) expenditures for fiscal year 1995 were $3.4 billion higher than the Trustees projected in their report last April. HI trust fund revenues were $1.3 billion less than projected. These two errors resulted in a $36 million trust fund deficit last year, rather than a projected $4.7 billion surplus.

- Budget analysts often examine expenditures on a cash-flow basis. The HI trust fund first ran a cash flow deficit in FY 1993. The trust fund "surpluses" over the past two fiscal years have been cash flow deficits, offset by general revenue payments labeled as interest on HI trust fund assets.

HOSPITAL INSURANCE TRUST FUND, FY 1995 PROJECTIONS VS. REALITY ($ in Billions)	Projected	Actual	Difference
Including Interest			
Trust Fund income	116.184	114.847	-1.337
Outlays	111.481	114.883	3.402
Surplus	4.703	-0.036	-4.739
Excluding Interest			
Trust Fund cash income	104.979	103.619	-1.360
Outlays	111.481	114.883	3.402
Cash flow Surplus	-6.502	-11.264	-4.762

- There are three definitions of a trust fund "going broke": running a trust fund deficit; running a cash flow deficit; and depletion of the trust fund's assets.

- The New York Times article points out that the first occurred last year, which the Trustees projected would first happen in FY 1997. The second happened in FY 1993. The third will happen in FY 2001 or 2002. Recent political attention has focused on this last definition.

- A recent letter to Secretary Shalala said that the authors were "very concerned that officials of the Administration involved in the negotiations over the legislation to save Medicare may have known about the early deficit spending during those negotiations and chose to withhold that information from the public."

- But the information in the New York Times first became available last October, in the Monthly Treasury Statement (MTS) summarizing outlays for FY 1995. This new data was incorporated by CBO into their revised December baseline. It was partially offset by Medicare part B expenditures which came in lower than projected.

- Readers should note the following for the next Medicare quiz:

1. The recent changes in projections do not significantly affect the long-run Medicare situation.

2. The net effect of this data is (slightly) *good* for Medicare. CBO accounted for this new data in its revised December baseline. The downward revisions in projected part B (Supplemental Medical Insurance) spending more than offset the higher part A (Hospital Insurance) spending. CBO's projections for total Medicare spending came *down* in December.

3. The growth rate of total Medicare spending is a more important measure of Medicare's fiscal health than the solvency of a "trust fund" for only part of Medicare. Insolvency is an indicator of an underlying problem; it is not the problem itself.

4. None of the plans proposed over the past thirteen months have slowed Medicare spending enough to produce a program that is sustainable in the long run. The latest Republican and Presidential offers are *worse* for the long-run sustainability of Medicare ~~than the Balanced Budget Act of~~ 1995, since they slow the growth rate less than does the BBA. They are, of course, more politically palatable in the short run.

IMPROVED CHILD SUPPORT COLLECTIONS!?

- The Bulletin continues its look at the state run, federally sponsored Child Support Enforcement system.

- The Administration released its annual report to Congress on Child Support Enforcement for Fiscal Year 1994. The report proclaims that "since the Clinton Administration took office, our partnership with states has brought about unprecedented increases in support for children." The study highlights an increase in the number of cases with a collection and an increase in the total amount of collections.

- What is this "unprecedented" improvement? The data behind the introductory paragraphs shows an increase in collection rate from 18.2% of the total caseload to 18.3% of the caseload, or stated differently, now only 81.7% of children do not receive any payment at all.

- More disturbing is that while the caseload increased by 8.7%, the building blocks for future child support collections, have not kept pace with the caseload increase.

- Paternity establishment, which is needed before establishing an order, increased only 6.5%. Support order establishment, which is necessary before receiving a payment, *decreased* 0.2%. In cases where a state has already established an order, the payment rate decreased 0.3%.

- To establish paternity and support orders in the first place, states must locate absent parents. The number of parents located dropped 8.8% in 1994.

- Despite these dubious achievements, states continue to return more to their state treasuries than they pay out for child support enforcement. State "profits" increased in FY 1994 by over $20 million. Incentive payments for good performance increased over $10 million. At the same time the federal share of expenditures increased $235 million. Enforcing child support orders now costs taxpayers overall close to $1 billion.

- Pointing out the costs of child support should not be construed to suggest that costs are bad. Beyond offsetting AFDC payments, there is the intangible amount of "cost avoidance" from mothers never going on welfare because of child support payments. There are societal returns from absent parents being involved in the lives of their children. In fact increased costs are expected as states move beyond simply enforcing the easy cases.

- The welfare reform bill, vetoed by the President, contained major consensus reforms giving states needed tools to improve collections. Included in this legislation is an overhaul of the current financing system that enables states to maximize returns to the state treasury or "profits" at the expense of improving collection rates.

- The new financing system, for the first time, focuses incentive payments on states with good performance. For example, states that make collections on 7% of their cases will no longer qualify for incentive payments.

- Of course, good performance is still relative. Even the "best" performing states, like Wisconsin and Washington, have collection to caseload rates of well under 40%. Wisconsin which has the highest collection rate of any state in 1994, made a collection on less than 37% of its caseload. This means that 63% of children -- and their custodial parents who are often struggling to get off or stay off welfare -- did not receive support from the absent parent. (Note -- A collection does not necessarily mean regular payment, only that some time during the year a payment was made. Statistics on child support show that roughly half of the payments were made in full and on time.)

- Finally, given the dismal state performance, one might expect that the Administration's audits would find most states out of compliance. However, about half the states passed the audit and only two states were penalized for continued deficiencies.

CALENDAR

February 14, 1996: *Economic Report of the President*, released.

February 22, 1996: Senate Finance Committee hearing on recent Governor's welfare and Medicaid proposals (tentative).

Chuck Konigsberg
Office of Management and Budget
248 Old Executive Office Bldg
Washington, DC 20503

United States Senate
Committee on Budget
Washington, D.C. 20510-6100
Official Business

Chairman ARCHER. Thank you, Madam Secretary.

Secretary Rubin, we would be pleased to receive your testimony now.

STATEMENT OF HON. ROBERT E. RUBIN, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Secretary RUBIN. Thank you, Mr. Chairman.

Thank you for having us here today to discuss a subject that is of enormous importance to the country—Medicare, and particularly the Medicare Part A Trust Fund. My testimony is brief, but let me summarize if I may the most important points.

First, the Trustees regularly report the financial status of the Medicare Funds in conformity with law and precedent. The Trustees during this administration have never deviated from the practices of previous administrations in making these disclosures—not once, not for any reason.

Second, following our established procedures, the Board annually reports the current and projected financial status of the Funds to the Congress as we did last April. In addition, the Treasury Department reports monthly on receipts and outlays in the Fund and issued its fiscal 1995 yearend report last October 27. That report, Mr. Chairman, which I hold in my hand, was a public document—in fact, this is a press release that says "Embargoed for Release at 2 p.m. EDT," so it was publicly available—and it has highlighted in it on the initial summary certain of the information with respect to Medicare.

These reports are provided to every Member of this Committee and to the public, and every member of the negotiating team on both sides, with respect to both parties, had received copies of this report. Indeed, as Secretary Shalala mentioned, the Congressional Budget Office and the American Academy of Actuaries analyzed the yearend report and in turn made their findings public within 2 months of issuance.

Third, each year, the actual results differ slightly from the forecasts. As Senator Domenici and the Senate Budget Committee staff have pointed out, neither the administration nor the Congress looked at these fluctuations as significant in the Medicare debate. Whether they improve or regress does not affect in any way whatsoever the need to extend the life of the Medicare Trust Fund. And while we disagree on policy, Mr. Chairman, as Secretary Shalala said, our shared concern must be how we can extend the life of the Fund to maintain the viability and vigor of the Medicare Program.

These are the facts. In our April 1995 Trustees' Report, we concluded that, using intermediate assumptions, the HI Trust Fund would be depleted in 2002—a 1-year change from the 2001 estimated in the 1994 report.

We asked Congress to take remedial action to fix the HI Trust Fund on a near-term basis and then to make long-term changes in the system to accommodate the influx of the baby boomer generation. The first baby boomers will reach age 65 in the year 2010. We felt that this would provide adequate time for responsible, bipartisan, long-term solutions to the financing problem.

Last June, the administration put forth a proposal that the Health Care Financing Administration Chief Actuary certified would extend the life of the HI Trust Fund through 2006. This initiative was consistent with actions by prior Congresses in affording us more than sufficient time to propose a bipartisan solution to the long-term problems of Medicare. Such a bipartisan solution will be needed for the long-term health of Medicare regardless of which plan is finally adopted.

Additionally, during the budget negotiations last December, the President, as Secretary Shalala said, laid down a proposal that would have extended the Trust Fund for at least another decade from now.

Last October 27, the final fiscal year 1995 numbers were published, which showed that Trust Fund income was 1.2 percent less than projected, and expenditures were 3.1 percent greater than projected. This is consistent with normal fluctuations and variances from prior forecasts.

The key is that last year's information does not change whatsoever the fundamental need, as we expressed in the report to Congress last April, to reform Medicare, to ensure the near- and long-term solvency of the HI Trust Fund. And it is exactly that observation that Senator Domenici's report also made, the report issued, I believe, on February 12. The report said that the results of 1995 in no way whatsoever alter the fundamental situation, which is that the Medicare Trust Fund needs to be reformed to provide for both near-term and long-term solvency.

Mr. Chairman, let me conclude by saying that one of the great accomplishments of government over the last 30 years is that we have in very large measure conquered poverty among senior citizens, although there is certainly still additional work to do. We did that by having strong and effective programs in Social Security, Medicare, and Medicaid. Medicare has effectively provided a reliable source of medical care coverage for aged and disabled Americans.

There are few issues of greater concern to working families than the cost of retirement and the problem of providing health care to the elderly. That is why the administration and the Congress must strive to work together to energetically address the solvency problem of this great program so that it can continue providing the services on which 37 million of our elderly and disabled depend.

I hope, Mr. Chairman, that this hearing will contribute to addressing those issues and to providing for the near- and long-term health of Medicare.

Thank you very much.

Chairman ARCHER. Thank you, Mr. Secretary. We do have a major responsibility, to the senior citizens of this country and to generations to come who will become senior citizens, for this very vital program, and we all agree on that.

The Board of Trustees is set up under the law with a very special responsibility, a front line responsibility, a responsibility of significant trust; that is why it is called "Trustees." And as a result of that law which creates this board, the members of that board are of course charged with this significant additional responsibility in advising Congress and advising us as quickly as possible so that we will be aware of what is going on.

And Secretary Shalala, you are one of those Medicare Trustees, and I am curious as to when you first learned about Medicare's early financial shortfall.

Secretary SHALALA. As I reported to you in my letter, it was in early December, in preparation for the midyear Trustee meeting.

Chairman ARCHER. So the first you knew about it was when you were given a memo from Sandra Bart, your policy coordinator, on December 11?

Secretary SHALALA. Yes.

Chairman ARCHER. OK.

Secretary SHALALA. And a meeting followed that memo. That was a memo in preparation for a briefing meeting with me by my senior staff.

Chairman ARCHER. So you personally did not learn of it from this October 27 release that you have raised.

Secretary SHALALA. I did not.

Chairman ARCHER. And you are a Trustee.

Secretary SHALALA. I am a Trustee, and I did not learn it from the October Treasury Department report but instead learned about it at the December midterm meeting when we would normally receive an analysis on the condition of the HI Trust Fund from our senior officials.

Chairman ARCHER. I do not want to bore in on this, but I am very curious because you and Secretary Rubin both have held up an October 27 release and said everybody should know about it because of that, but as a Trustee, you did not know about it until December 11.

Secretary SHALALA. That is correct.

Chairman ARCHER. Did you at that time inform Alice Rivlin about the shortfall?

Secretary SHALALA. I did not.

Chairman ARCHER. Did you inform Leon Panetta?

Secretary SHALALA. I did not.

Chairman ARCHER. Did you or anyone else to your knowledge inform the President about it?

Secretary SHALALA. I did not inform the President about it.

Chairman ARCHER. And to your knowledge, nobody else did?

Secretary SHALALA. Not to my knowledge.

Chairman ARCHER. OK. Why not?

Secretary SHALALA. For several reasons—because when I was informed the numbers were within the normal range of variations for these projections, because the Congressional Budget Office and all the appropriate fiscal offices that take these numbers and adjust baselines were informed and had discussion on these numbers, and because they were preliminary projections. The Trust Fund was solvent at the end of 1995 because there was $129 billion in that Trust Fund. And all of us read these numbers the same way that Senator Domenici did, and that is that there was still urgency, that we still needed to move ahead with the Medicare changes that all of us were working on.

Chairman ARCHER. Of course, but what we are talking about here is actual changes in spending, not projections. And in the memo that you have given us from Sandra Bart, it says here that the date of default or the date of exhaustion of the HI Trust Fund would now have to be moved up to the year 2001 instead of 2002.

It seems to me that that is a very important and significant item that would be very much a part of the budget negotiations and determining what would occur. After all, the only time that the HI Trust Fund has gone negative in all of its history was once, in 1972.

This truly was a historic moment and I would think of some serious import.

Secretary SHALALA. Excuse me, Mr. Chairman. The HI Trust Fund was not going negative. There was $129 billion in the HI Trust Fund.

Chairman ARCHER. Well, the whole——

Secretary SHALALA. The HI Trust Fund had balances.

Chairman ARCHER. Well, yes, but——

Secretary SHALALA. What we are talking about is a crossover—obviously, between revenues.

Chairman ARCHER. But what we are discussing, Madam Secretary, today is the fact that it took in less money in 1995——

Secretary SHALALA. That is correct, but that does not mean——

Chairman ARCHER [continuing]. Than it paid out in spending. And that had only happened one time before, and that was in 1972.

Secretary SHALALA. Let me make two points here. First, that did not mean that the Trust Fund went broke at that moment, because there was $129 billion in assets in the Trust Fund, and it was not beyond the normal variations in terms of projections of what was going to happen to the Trust Fund, and second, it did not change our conclusion as Trustees. I will remind you what we said to the Congress in 1995. We reminded you that the Trust Fund would be exhausted in less than 11 years and urged the Congress to take additional actions designed to control HI Program costs and to address the projected financial imbalance in both the short range and the long range through specific program legislation as part of a broad-based health care reform. We believe that prompt, effective and decisive action is necessary.

And that crossover simply reinforced that view that prompt, effective and decisive action was necessary.

Chairman ARCHER. So you did not consider this significant.

Secretary SHALALA. I did not.

Chairman ARCHER. Thank you.

Secretary SHALALA. I consider the condition of the Trust Fund significant. I consider the fact that the Trust Fund is running out of money significant, and the fact that our projections now make it even more urgent simply reinforces the very strong language that we used in 1994 and 1995, and makes it even more urgent that all of us deal with the issue of Medicare.

Chairman ARCHER. But the fact that it was deteriorating more rapidly by between 1 and 2 years, you did not count as being important.

Secretary SHALALA. As I reported, with both the CBO projections as well as in the Trust Fund projections, these are projections and estimates, and they always vary a certain percentage. This was not outside the range. And as Senator Domenici reported, this was in the range, and therefore was not significant in his judgment to change our conclusion that we must deal with the Medicare Trust Fund.

Chairman ARCHER. All right. Did you attend the December 13 Trustee meeting?

Secretary SHALALA. I did.

Chairman ARCHER. Was the shortfall discussed at that meeting?

Secretary SHALALA. It was. It was reported, and I specifically asked a question on what accounted for it. Administrator Vladeck had some information, and I specifically asked that we get a lot more information about what was happening to the Trust Fund.

Chairman ARCHER. So it was specifically discussed at the December 13——

Secretary SHALALA. It was discussed.

Chairman ARCHER. Was Secretary Rubin at that meeting?

Secretary SHALALA. He was.

Chairman ARCHER. OK. Thank you very much.

Secretary Rubin, you also are a Medicare Trustee.

Secretary RUBIN. That is correct.

Chairman ARCHER. With the very special extra responsibilities that I know you take very seriously. And you are actually the managing Trustee of the Board of Trustees, is that not correct?

Secretary RUBIN. That is correct, Mr. Chairman.

Chairman ARCHER. And Secretary Shalala said you were at the December 13 meeting; I assume that is true?

Secretary RUBIN. That is also correct.

Chairman ARCHER. Can you tell us whether you recall it being discussed at the December 13 meeting?

Secretary RUBIN. Mr. Chairman, I do not know whether the—I do not recollect the discussion that Secretary Shalala just reported, although if she reported it, it undoubtedly occurred. But I really do not think that is the point. I think the point is the point that Secretary Shalala made. In our April report, what we said was that with the exhaustion date approaching, the near- and long-term solvency of the Medicare Trust Fund had to be addressed. That was our consistent position, it is what we worked for through this entire period.

I might observe, as Secretary Shalala observed, that Senator Domenici's report on February 12, specifically referring to the numbers, to the performance in 1995 in the HI Trust Fund, said: "The recent changes in projections do not significantly affect the longrun Medicare situation."

Chairman ARCHER. Mr. Secretary, you and Secretary Shalala have now repeated that three times. I think it is in the record, and it is not necessary to repeat that.

Secretary RUBIN. Well——

Chairman ARCHER. I am curious as to what capacity you attended that December 13 meeting.

Secretary RUBIN. I attended as a Trustee.

Chairman ARCHER. Were you also chairman of that meeting?

Secretary RUBIN. Yes. I am the managing Trustee of the Medicare Trust Fund.

Chairman ARCHER. But you don't recall what Secretary Shalala says was specifically discussed at that meeting?

Secretary RUBIN. Mr. Chairman, I do not recollect what was specifically discussed at that meeting. What I do recollect is what we said in our April report; I recollect what we worked on through this whole time; I recollect what I think is absolutely imperative that we have done and that we have said throughout this process, which is that we restore the solvency, near-term and long-term, of the Medicare Trust Fund.

Chairman ARCHER. I understand. But you remember Secretary Domenici's release precisely, but you do not remember what was discussed at a meeting that you chaired on December 13?

Secretary RUBIN. Well, Mr. Chairman, I remember Senator Domenici's release because when I was notified of this hearing we got hold of it, we got a copy of this release, and we thought we would share it with you because we thought you would find it useful in evaluating the importance of those numbers.

Chairman ARCHER. Is there a record kept of the discussion at your Trustee meetings?

Secretary RUBIN. There are minutes; they are minutes like all other meetings. They tend to be summary in form.

Chairman ARCHER. Have you taken occasion to go back and refresh your memory by looking at those?

Secretary RUBIN. No, I have not. Secretary Shalala may have.

Secretary SHALALA. No.

Secretary RUBIN. But let me just add if I may, Mr. Chairman, that the reason I have not is that this—and Secretary Shalala said it very well—there is no change in our view with respect to the importance of—our differences with the congressional majority never lay over the question of the importance of addressing the solvency of the Medicare Trust Fund. We always said that that was critically important. The differences lay in policy. We did not think premiums should be raised. The congressional majority did think premiums should be raised. We felt that the reductions——

Chairman ARCHER. I understand, Mr. Secretary, but——

Secretary RUBIN [continuing]. Wait 1 minute—the cuts should be of a level that were consistent with having an effective program. We felt the congressional majority's cuts were too large, and so forth. That is where the differences lay, not in whether we needed to address this shortfall.

Chairman ARCHER. But let me tell you what troubles me, and this will be my last comment. What troubles me is that you have come to this Committee, and you have said that we should know. Because there was a needle in a haystack buried in a very big document, we should have known about this shortfall, and that has been the inference from both of your testimonies. But you, as chairman of a Board of Trustees, in a meeting that only lasted I believe 18 minutes, do not recollect this, and Secretary Shalala specifically remembers it being discussed. That just—I find that hard to believe because I attach a great deal of importance to this significant change in the trust account for the Medicare beneficiaries of this country.

So I am going to yield to Mr. Gibbons for inquiry.

Secretary RUBIN. Could I respond to that, though, Mr. Chairman?

Chairman ARCHER. Well, actually, it really wasn't a question, but you certainly are free to respond.

Secretary RUBIN. Well, it has the nature of a comment—it is a question, I guess. My comment is not that you should have known of the material in this document. My comment was that it was broadly distributed, including to each Member of Congress.

I will stick with what Senator Domenici said, and I will not quote him again because as you observed, he has now been quoted a number of times. But I would also observe that the CBO revised their baseline, and when they came to the December 12, I believe it was, negotiating session, and they had already revised their baseline to reflect these numbers, they too did not mention these numbers. And I think the reason they did not mention these numbers, Mr. Chairman—and this is the point that I was trying to focus on—is that all of us, based on all of the information with regard to the HI Trust Fund, were committed to the proposition that we need to deal with both near- and long-term solvency, and these numbers did not change whatsoever the need to address that problem.

Chairman ARCHER. Well, it still is very interesting to this Committee that you as the managing member of the Board did not know about this until you read a press account about it in February of this year. And I believe you that you are being totally forthright in saying that you just do not remember it, but it does strike me as being rather strange.

Mr. Gibbons.

Mr. GIBBONS. Mr. Chairman and witnesses, I think we would serve the country better if we spent more time discussing how you fix the problem rather than trying to assess blame around here.

Madam Secretary, I would like for you to tell me as briefly as you can what changes you think this Congress should make in the Medicare Part A Trust Fund.

And Secretary Rubin, I would like for you to tell this Committee what is going to happen to Medicare and the whole rest of the government if we do not get our work done in passing a clean debt ceiling by the middle of this month.

Secretary Shalala, would you go first?

Secretary SHALALA. Thank you, Congressman Gibbons.

The President has laid out in his balanced budget proposal a series of changes in the Medicare Program that will improve the managed care options of new plans including PPOs and PSOs, improve the program's payment methods, improve the quality protections and provide better beneficiary information.

In addition to that, the President has recommended that we expand some of our prevention benefits, including mammogram coverage. The President also included considerably stronger waste, fraud and abuse protections, in his proposal.

To achieve $124 billion in savings, we propose to slow down the growth of Medicare with a series of very specific recommendations on hospital updates, on other special hospital payments, on an SNF prospective payment system, on a home health prospective payment system, on HMO payment revisions, and on physician updates. We have given the Congress a very specific set of cuts that will slow down the growth of the Medicare Program as well as a set of options that will increase the availability of Medicare and the choices available to every American.

All of this will extend the Trust Fund into the second decade of the 21st century and give all of us enough time to deal with the long-range problems of financing the Medicare Program.

Mr. GIBBONS. Secretary Rubin, what is going to happen if we do not get a clean debt ceiling.

Secretary RUBIN. Mr. Gibbons, this Committee, as you well know, is the Committee of jurisdiction with respect to the debt limit, and your Chairman has played, I think, a very constructive role in providing the $29 billion that got us through March 1. That was a very important contribution.

I think, Mr. Gibbons, we have come a long way. When this process started, many, many months ago, there were those who were saying that default was acceptable as the price for getting their way on the budget negotiations, and it was our view that nothing, but nothing, should be allowed to in any way create a question with respect to the creditworthiness of the United States of America. And I think that this period, although it has been a difficult period, has accomplished a great deal in the sense there seems to be an almost universal view now, given that people have had time to reflect on the importance of the creditworthiness of the Nation, that default is unthinkable, and I believe it is unthinkable, and it will not happen.

On March 15, Mr. Gibbons, that will be the date when, under Chairman Archer's legislation, there will in effect be a "snapback," so that the debt that has been issued will be treated as debt above the debt limit. For that reason, we will not be able, as a matter of law—not choice on our part—as a matter of law, we will not be able to reinvest the incoming proceeds, the incoming cash, to the Social Security, Medicare and other trust funds in interest-bearing government securities. So instead, they will go on the books of the Federal Government as credits backed by the full faith and credit, but without interest. Congress could, of course, restore interest legislatively.

We will still, however, have a cash balance. As the days go on, additional Trust Fund investments will come in; as a matter of law, we will not be able to invest them, but we will continue to have a cash balance.

On March 21, according to our projections, we are a slight bit either way, depending on the day, of being able to meet the obligations of the U.S. Government, so that default is possible on the 21st—based on the most recent projections we have, default would occur by a slight bit, but those projections put us slightly over or slightly under, depending on the particular day of the projections, and we are making projections 1 month out, on a $1.5 trillion budget.

But I think it is imperative that we put in place a debt ceiling increase, that we do it promptly, and that we do it in a manner consistent with the letter that the leadership, I think very constructively, gave to the Congress—which means taking out the use of the debt ceiling to pressure with respect to other legislative agendas.

Mr. GIBBONS. As a de facto situation, the Medicare Trust Fund would be in just as bad a position on March 22 as it would be in 2001. You would not be able to spend any bills in this year.

Secretary RUBIN. Well, this country will not default, I am confident, Mr. Gibbons. But if ever we did, it would create a lot of problems with respect to the Trust Funds. But that will not happen, I am confident.

Mr. GIBBONS. Can you tell me about when we are going to get any legislation on that?

Secretary RUBIN. Well, all I can tell you, Mr. Gibbons, is that in my view and in the spirit of the letter that the leadership gave us and in the spirit of the legislation that the Chairman here provided, which I think was very useful and constructive, I think it is important that we move promptly and that we not let this issue linger because of its enormous importance to the country.

Mr. GIBBONS. Thank you.

Chairman ARCHER. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman.

Secretary Rubin, in whose name was that October 27, 1995, report issued?

Secretary RUBIN. Well, this is the regular—it is called "Treasury News," but it was actually put out as a joint statement from myself and Alice Rivlin, Director of the OMB.

Mr. CRANE. Now, my recollection is you indicated that you and Alice Rivlin first learned about that shortfall in the New York Times article you read in February of this year?

Secretary RUBIN. Mr. Crane, when we were doing a press conference on this year's budget, and we were asked that question, I said that I did not at that time know whether I knew it from then or not. It certainly was not in my mind at the time of the February 5 press conference that you are talking about, and I believe Director Rivlin said the same thing.

Mr. CRANE. So you are saying that you did not know what was in your release of October 27, and that Alice Rivlin did not know it either.

Secretary RUBIN. Well, let me just try to be a little bit more precise if I may, Mr. Crane. What I was saying was that I just did not know on February 5 whether this had been in my mind October 27 or not, and as I said a moment ago to the Chairman, that really is not the point. The point is the point that was in our April report, which is that the Medicare solvency issue has to be dealt with, and it has to be dealt with effectively and promptly.

Mr. CRANE. Right, but I mean, it obviously was not that significant to you until you read the New York Times. It was inconsequential, basically, I gather, because at the meeting you chaired on December 13, you have no recollection of it being discussed, notwithstanding what Secretary Shalala said.

Secretary RUBIN. I agree with Senator Domenici's bulletin—and I will not read it again because the Chairman has said it is in the record, which is true—but he refers to the projections as not being significant. And I think——

Mr. CRANE. Well, wait——

Secretary RUBIN. Could I just——

Mr. CRANE [continuing]. You are confirming that from your perspective it is not significant.

Secretary RUBIN. Mr. Chairman, there was about a $36 million shortfall in about a $130 billion fund.

Mr. CRANE. Instead of the $4.7 billion surplus that had been anticipated.

Secretary RUBIN. That is correct, and if you look back——

Mr. CRANE. Well——

Secretary RUBIN. If I could, Mr. Crane.

Mr. CRANE. I am just curious as to how much significance you attach to figures like that. You do not have to pursue it, but I have a question for Secretary Shalala.

I have half a dozen news releases that you have issued since 1994, November 1994, and they deal with a variety of things, including the hearings, public hearings soliciting input from the public, their ideas, and highlighting studies of Medicare payments and medical equipment and supplies. In these news releases, though, you never once made any reference to the information that you knew on December 13 and was in that October 27 report. Is that because you two do not think that is all that significant?

Secretary SHALALA. The information that we were given was a preliminary report, and the variation that was described was within the normal range of variation.

Mr. CRANE. So, roughly $5 billion here or there is not that significant?

Secretary SHALALA. Well, as you could see from what we had done before on projections compared to what CBO has done on their projections, it was within the normal range of variation. Adjustments were made in the baselines from this information. CBO was informed, they were briefed extensively, they made adjustments in the baseline.

My staff has to keep me informed when there is something beyond the normal range of variation. I was briefed for that meeting; I asked questions about what was the explanation within the numbers. We expected to have a full report in 1996. The information I was given did not change any conclusion that we had made as Trustees or any information we had given to the Congress about the urgency of dealing with the Medicare Trust Fund.

Mr. CRANE. At that December 13 meeting of the Trustees, who raised the question of the difference in the figures?

Secretary SHALALA. We were briefed by the HCFA Administrator on the preliminary actuarial figures. I asked a question about what was inside of those numbers, and we knew that we would get a firmer report in April, but the figures we were given were within the normal range of variation. They did not change our very firm conclusion that this Congress must deal with the Medicare Trust Fund problem.

Mr. CRANE. Thank you very much.

Chairman ARCHER. Mr. Thomas.

Mr. THOMAS. Thank you very much, Mr. Chairman.

First of all, I thank both of you for coming, and especially, Secretary Shalala, for the information that you provided that is helpful to try to put timelines together.

Secretary Rubin, you have indicated that on that October material, which was the monthly update, and it just happened to be the last month of the fiscal year, that not only was this information included in the monthly statement, but it was highlighted in the "Treasury News" that was embargoed for release, which was a public document. And I went through that, and apparently you are referring to the page 4 reference about the actual outlays for the Medicare Program; is that the statement you were talking about which highlighted the deficit?

Secretary RUBIN. Yes. It is about the middle of page 4, that is right.

Mr. THOMAS. Yes, I see that, and nowhere do I see it stating that there was a deficit in the Trust Fund. So how is it highlighted?

Secretary RUBIN. Well, the Trust Fund, as you know, did not have a deficit. The Trust Fund had——

Mr. THOMAS. No—the yearly report, on the monthly report——

Secretary RUBIN. Yes.

Mr. THOMAS. Where is the deficit shown for the year in this highlighted paragraph?

Secretary RUBIN. Mr. Thomas, what this highlight was intended to do was to do exactly that, highlight the most important parts of the report, and then people who are interested can——

Mr. THOMAS. So it was not important that the deficit——

Secretary RUBIN. No—Mr. Thomas, I think if you will let me finish, maybe you will find——

Mr. THOMAS. No. I would like to ask the question. Was there anywhere in the document a statement or a number that showed that it actually was a minus number?

Secretary RUBIN. Yes. Now let me respond, if I may. What you will find in the middle of page 4 is a highlight with respect to the Medicare Trust Fund, pointing out that the outlays exceeded estimates by the amount that is indicated.

Mr. THOMAS. Yes.

Secretary RUBIN. For anyone who is interested in Medicare and in pursuing that, you can then go back into the material. The point of the highlights is to point out the most important pieces of what is then a longer document.

Mr. THOMAS. And somewhere in the middle of the document, there is a number that shows that for the year, you missed the estimate.

Secretary RUBIN. Well, each of these items——

Mr. THOMAS. No. Is there somewhere in the document——

Secretary RUBIN. Yes. The answer to the question is yes.

Mr. THOMAS. Where is that?

Secretary RUBIN. That is about page 28.

Mr. THOMAS. So on page 28——

Secretary RUBIN. I think—yes, it is on page 28.

Mr. THOMAS [continuing]. There is a single number that says minus 36.

Secretary RUBIN. Let me say, if I may, Mr. Thomas——

Mr. THOMAS. No. What that means—take a look at the chart over here. That is what the Trustees estimated. And you will notice between 1994 and 1995, you estimated a reversal of the trend that had been carried out over several years. The next chart shows exactly what happened—in fact, a continuation of the trend over the last several years. So when you compare the two, what you really have is a difference—and there on the chart is a dotted line showing the original estimate, and the line below that, which was the actual one, and the zero for the year which you folks do not seem to place much significance on produces a yearly deficit for the first time since 1972. And the last time there was a deficit, the Democratic-controlled Congress responded by raising taxes.

So no one thought that because there was a deficit it made any difference, or it was not important, or it was not significant at all?

Secretary RUBIN. Mr. Thomas, let me—would you like me to respond to that?

Mr. THOMAS. Yes.

Secretary RUBIN. Let me respond in two respects, and in one of them, I will just repeat something I have said several times before. There has never been a disagreement about whether or not the solvency——

Mr. THOMAS. No. I understand that.

Secretary RUBIN. Wait 1 minute——

Mr. THOMAS. No. I have heard your statements, and I understand that, and my time is almost out. So you did not think it was significant to really focus on the minus. That is OK.

Secretary RUBIN. I think that——

Mr. THOMAS. I understand that. I would like to ask——

Secretary RUBIN. I think that what is significant is to focus on the solvency, which we have been trying to do all along. I agree with Senator Domenici's report——

Mr. THOMAS. We know that. You have relied on him significantly.

Secretary RUBIN. Well, he is very thoughtful about these things.

Mr. THOMAS. OK.

Secretary RUBIN. I do not think that this particular number affected the imperative to deal with that problem.

Mr. THOMAS. Secretary Shalala, you did not think the minus 36 was significant——

Secretary SHALALA. The information we had——

Mr. THOMAS. No. Question: You did not think it was significant, either?

Secretary SHALALA. The variation was within a normal range for these projections. I think the——

Mr. THOMAS. Why, then, on the memo that is dated December 8, did your aides say that this number may be controversial?

Secretary SHALALA. Because it was a change in what our projections indicated, but it was within the normal range of variation as the actuaries concluded. The numbers were also preliminary, and I made sure that we found out what was underlying those numbers.

Mr. THOMAS. No, no, no. The statement was: "It may not be perceived as trivial." Was it because it was a deficit for the first time since 1972?

Secretary SHALALA. Congressman Thomas, I do not consider any variation in the Trust Fund trivial. I do not consider any information I get about the Trust Fund trivial. We act on that information——

Mr. THOMAS. I did not use the word "trivial." That was in a memo to you.

Secretary SHALALA. And all of the information in the memo to me, as well as what I heard at that meeting, was consistent with what we had urged Congress to do.

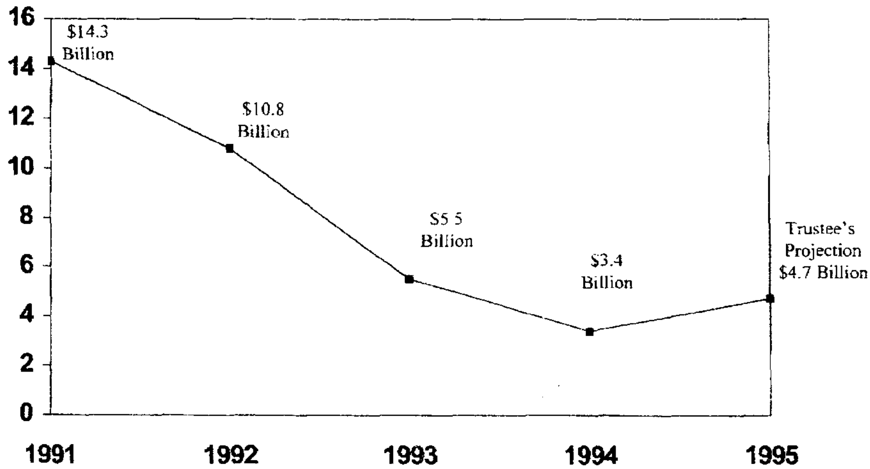
Mr. THOMAS. Madam Secretary, here is the real problem, and this is looking forward as Mr. Gibbons urged us. On the left was the fiscal year 1995. Encapsulated in blue are the first 4 months, which showed a $3+ billion amount. But for the entire year there was that deficit of $36 million.

My real concern is that on the right side of that chart is fiscal year 1996, and in fiscal year 1996, we do not have the frontload in the first 4 months of that more than $3 billion.

Now, what happened with the actual numbers was that we were in the worst case scenario, according to the profiles as outlined by the Medicare Trustee actuaries. Where are we if, in the first 4 months, we have only that much of a frontload? What is going to be the yearend in fiscal year 1996, and are we going to be outside the worst case scenario as profiled by your actuaries?

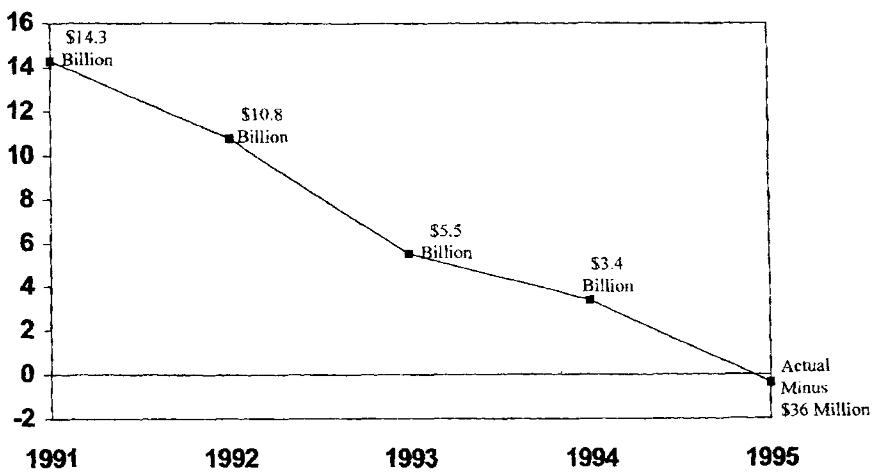
[The following was subsequently received:]

Medicare's Cash Position is Declining Faster Than Expected



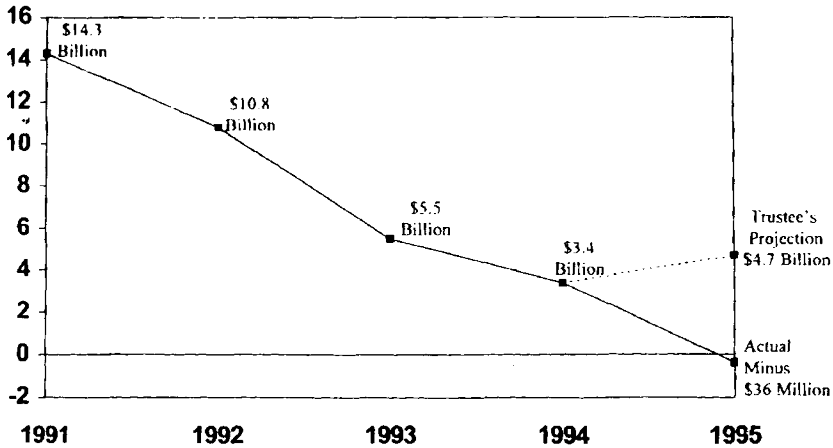
Source: Monthly Treasury Reports and 1995 Hospital Insurance Trustees Report

Medicare's Cash Position is Declining Faster Than Expected



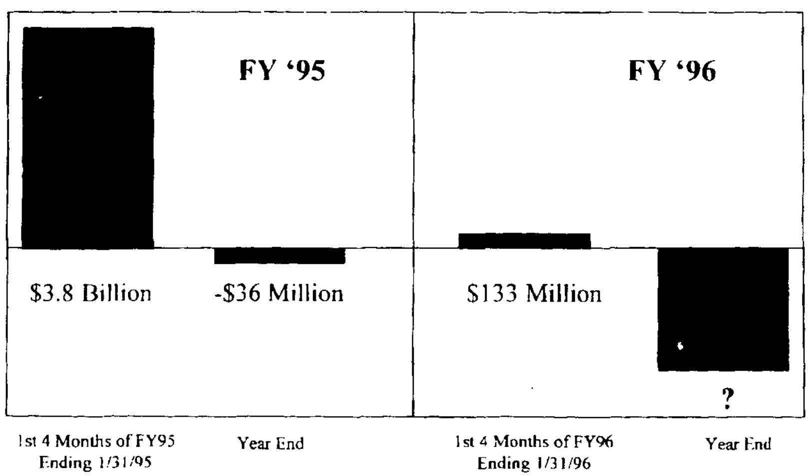
Source: Monthly Treasury Reports and 1995 Hospital Insurance Trustees Report

Medicare's Cash Position is Declining Faster Than Expected



Source: Monthly Treasury Reports and 1995 Hospital Insurance Trustees Report

Medicare's Condition is Worse than Expected



Source: Monthly Treasury Reports

Secretary SHALALA. Congressman Thomas, as far as we are concerned, it is urgent and imperative that this Congress deal with the Trust Fund situation. We reported that in 1994 and 1995. These projections simply confirm that conclusion——

Mr. THOMAS. I agree with you completely. As Congressman Gibbons said, we started out at $270 billion of slowing the growth; we went to $225 billion in December. We are currently negotiating with reasonable Democrats a $168 billion—we have come down more than $100 billion of slowing the growth of Medicare.

He repeated, you repeat, a $124 billion number. Why don't you come up $50 billion? We have come down $100 billion. And we would have that agreement which you folks seem to want to reach. Only come halfway. We have already come more than $100 billion. All you have to do is come to $50 billion. Reasonable Democrats are there. When are you folks going to be there?

Chairman ARCHER. The gentleman's time has expired.

Mr. Rangel.

Mr. RANGEL. Mr. Chairman, the way this works out is that I would get a chance to vote and question——

Chairman ARCHER. You can use as much time, and use the rest of your time when you get back.

Mr. RANGEL. Well, Mr. Chairman, as usual, you are very generous.

Let me say this to the witnesses. It is abundantly clear that—no, no, that is all right——

[Mrs. Johnson assumes the chair.]

Mr. RANGEL. Thank you so much, Madam Chairperson.

It is abundantly clear that no one here——

Mrs. JOHNSON [presiding]. The Committee will recess for a few minutes until the Members return from the vote.

[Pause.]

Mrs. JOHNSON. Will the witnesses please return to the witness table.

Mr. Matsui.

Mr. MATSUI. It was only a difference of 18 months in terms of the default and the shortage in the Trust Fund. So nobody paid a lot of attention to this because we were looking at the bigger issue. We were not dealing with the kind of minutiae. We wanted to solve the bigger problem.

I really do not understand what this hearing is about. Last October, we asked the Republican leadership to hold a series of hearings on Medicare once your bill was introduced, and you only gave us one hearing. Now you want to hold a hearing on this.

They did a very poor job, Mr. Rubin and Secretary Shalala, if in fact they wanted a coverup, because they sent this out to your office—all 435 Members of Congress got this on October 28, 1995. Every one of us got this. I happened to read it. Apparently, nobody on the Republican side of the aisle read this report. If they did read it, they could not have thought it was too important.

So I really do not understand what the problem happens to be with respect to all this, and I just have to say that I am just somewhat surprised at all this.

Mr. Barbour, Haley Barbour, just issued a press release yesterday, accusing the administration of a coverup. Is this a political issue, or are we trying to really solve the problem of the Medicare Trust Fund?

I would hope that we would all act in a responsible, adult fashion to try to solve the problem of the Medicare Trust Fund instead of playing politics. You know, many senior citizens rely only on their Medicare payments in terms of their health care coverage. We do not need politics as usual, but apparently, you guys have no issues to play with, so you are playing politics with this issue.

I just have to say that I do not know the relevance of this hearing. It is really somewhat astonishing and surprising to me, and it would be my hope that we act in a more responsible fashion in the future.

I really do not have any questions. I am just astonished that we are wasting our time when we have a debt limit that we have to deal with in the next 2 weeks. I just find it absolutely astonishing, and I do not even understand, frankly, why your leadership insisted upon this.

Mrs. JOHNSON. The gentleman from Florida.

Mr. SHAW. Thank you, Madam Chairman.

I would like to review a few things here, because I think some things have been said that are of a little bit of concern.

Secretary Rubin, before coming here, you were an investment banker on Wall Street; is that correct?

Secretary RUBIN. That is correct, Mr. Shaw.

Mr. SHAW. And as far as analyzing a corporation, if the corporation goes into the red for the first time since the seventies, it would certainly be brought to your attention if that were in your investment portfolio; is that right, Mr. Rubin?

Secretary RUBIN. You know, Mr. Shaw——

Mr. SHAW. Yes or no, please, sir. I am not going to be filibustered. Is that right, or is that wrong?

Secretary RUBIN. Mr. Shaw, the results of any particular period would have to be taken in context and considered, as I said, in the context. I actually am very accustomed to analyzing financial statements and results, and I——

Mr. SHAW. Well, I have analyzed them, too, as a certified public accountant and a lawyer, and I can tell you, Secretary Rubin, that I would think that was very significant, and I think you would, too. Now——

Secretary RUBIN. Well, Senator Domenici and I don't.

Mr. SHAW [continuing]. Let me go on. I have some further things that I want to say.

Now, it has come out—Secretary Shalala has said that she learned of this on December 11, and it was discussed at a meeting that you chaired, I believe, on December 13.

Secretary RUBIN. Correct.

Mr. SHAW. How long did that meeting go, Mr. Secretary?

Secretary RUBIN. I have been told since; it was roughly 18 minutes.

Mr. SHAW. Eighteen minutes. I would assume that your attention span certainly would last 18 minutes, but in any event, you say you just cannot remember anybody saying anything about the Trust Fund going into the red; is that correct?

Secretary RUBIN. Mr. Shaw, I don't know if I was aware of these numbers being discussed at that time or whether it registered on me or not, but I will say once again—and we have now said it many times——

Mr. SHAW. Could we——

Secretary RUBIN [continuing]. We are exactly where Mr. Domenici is, Senator Domenici.

Mr. SHAW. Could we——

Secretary RUBIN. These are very important issues. Nobody has ever disagreed about the importance of dealing with solvency. The question is what path do we take to addressing the solvency, and that is what has separated the parties.

Mr. SHAW. I think this is very important because the previous questioner talked like this was just politics as usual, and it is not.

Could we play a tape over here, please?

Secretary RUBIN. Mr. Shaw, while we are waiting, could I just— I may have misheard you. If you said the Trust Fund was in the red, that was not correct.

[Videotape of press conference shown.]

TRANSCRIPT OF PRESS BRIEFING BY SECRETARY RUBIN AND MRS. RIVLIN

Q. Mr. Secretary, how long has the administration known that the Medicare Trust Fund was going to suffer a deficit and not a surplus this year?

Secretary Rubin. I just heard about this—Alice, do you know the answer? This was not something I had known about before.

Ms. Rivlin. Today is what? I heard.

Secretary Rubin. Yeah, my first knowledge of it was today.

Jim Lehrer. You first found out about it in the New York Times? Is that what I'm led to believe hare?

Secretary Rubin. It's actually a very good paper. You should read it. I mean, there are a lot of other good papers, too. I didn't mean—that was not a relative comment.

Q. If I could ask, then, why is it that the administration did not know this, especially since there was sensitive budget negotiations going on for a couple of months?

Secretary Rubin. Well, Jim, there may well have been people who in analyzing this were familiar with it. I learned about it today. But I don't think it matters.

Mr. SHAW. OK, Mr. Secretary, proceeding along those lines, I would assume that if I asked you if you had brought this up at any of the negotiating sessions with the Members of Congress—I understand you were at all of them—that you did not bring it up because you say you did not remember it.

Let me ask you a question. If you did remember it, and particularly since that is going to affect the "drop dead" date on Social Security, would you have thought it was important to bring up— please, yes or no?

Secretary RUBIN. Mr. Shaw, it does not affect the "drop dead" date on Social Security, so I do not know what you are referring to.

Mr. SHAW. I am sorry. Medicaid. Medicare.

Secretary RUBIN. And if it has any effect at all——

Mr. SHAW. Secretary Shalala said that Medicare is no longer solvent until 2002. It is now solvent until 2001. Do you think that was a significant thing to bring to the attention of the negotiators who were trying to negotiate with the President?

Secretary RUBIN. I agree with Senator Domenici and his comment. I agree with——

Mr. SHAW. I did not——

Secretary RUBIN [continuing]. Wait 1 minute—let me just finish—I agree with what implicitly must have been June O'Neill's view, that of CBO, because they had changed their baseline to reflect these numbers and did not bring it up in the negotiating session.

Mr. SHAW. Am I correct——

Secretary RUBIN. I think it was critically important that we address the issue of the solvency of Medicare, and I do not think that that importance was significantly impacted by the operating deficit in 1995.

Mr. SHAW. I would take your answer to be, then, that you do not take much significance in the fact that the Trust Fund took in less money than it paid out in 1995. I find that unbelievable, and I am very concerned.

I think the real message we have here is what didn't you know, and when did you forget it.

Secretary RUBIN. Well, Mr. Shaw——

Chairman ARCHER. The gentleman's time has expired.

Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman.

Do either of you two have counsel here?

Secretary RUBIN. We will serve as counsel to each other, thank you, Mr. Rangel.

Mr. RANGEL. Well, I don't think anyone on this Committee, except the last speaker, is challenging the validity of your remarks. They believe what you are saying, but as Clay Shaw said, the questions are what did you know and when did you know it? And we want you two to understand that we do not have much legislation to work on for the rest of this year, so it is very important to us that we try to get as much information about these types of things as we can, especially when we are enjoying the television cameras here with us today.

So we do hope that if you have any notes or any evidence at all around in your bedrooms, office files, or memorandums that you could use to refresh your recollections as to who was at these meetings that you attended and when you found out the shortfalls you will let us know. Notwithstanding that these variations were not too far from norm, this is the only issue we have, so we have to stick with this.

Now, at any of these meetings at the White House did you know or should you have known that there was a Dr. O'Neill in attendance. Does that name mean anything at all to either of you?

Secretary RUBIN. Well, Mr. Rangel, Dr. O'Neill was at the December 12 meeting—and it was actually held up on the Hill—at which all of the budget negotiators from the congressional majority, congressional minority, and the White House were present.

Mr. RANGEL. I know, and I appreciate your testimony on these questions.

Now, is Dr. O'Neill the Republican-appointed head of the Congressional Budget Office?

Secretary RUBIN. Yes, she is, Mr. Rangel.

Mr. RANGEL. Now, did you have reason to believe that she would report to the Republicans as to exactly what took place at this meeting that was held in December?

Secretary RUBIN. Well, she was not at the December meeting, but she was fully cognizant of the numbers that were reported—oh, in the December 12 meeting?

Mr. RANGEL. Yes.

Secretary RUBIN. That she would report everything that she felt was relevant?

Mr. RANGEL. Yes.

Secretary RUBIN. I cannot speak for Dr. O'Neill, but she is very highly respected; I presume that she would.

Mr. RANGEL. So if there was an attempt to cover up—of which, of course, there is a strong implication here—this information, Dr. O'Neill would have been a part of that coverup, now, wouldn't she? [Laughter.]

Now, you don't have to answer this.

Secretary RUBIN. Well, not necessarily, Mr. Rangel. She may have forgotten, or——

Mr. RANGEL. Well, we think that you ought to consider getting counsel in this matter, because we don't have time to take up the flat tax, and we don't expect that we will be getting any meaningful legislation out of this Committee still we are going to be on this until we get to the bottom of it. [Laughter.]

And so I agree with my friend Clay Shaw—he is gone—that as long as we can get away with this, we are going to try.

I want to thank you, Mr. Chairman.

Chairman ARCHER. Mrs. Johnson.

Mrs. JOHNSON. Thank you, Mr. Chairman.

I think it does matter when you knew things, and it does matter what got forgotten, because this is one of the two most important programs for the seniors of America, and on Medicare's solvency not only rests the health and well-being of the seniors, but the peace of mind and well-being of their families.

So I take this hearing seriously, and if I am the only one here who does, so be it. But we are talking about in 1 year, a $4.7 billion surplus, almost a $5 billion surplus, becoming a $36 million deficit.

You say in your testimony, Secretary Shalala, that that means that the Medicare Trust Fund will be exhausted in 5 years or so. I mean, 5 years, for a Nation our size, for a program this size, is a short period of time.

And the reason why a lot of us want to know how come a little release was put out on October 27, and you guys did not pay any attention to it until recently; you did not even discuss it in a meeting until December, and then you did not tell the President or anyone else in charge about such an important event.

The reason I am interested in that is because we have to save this program. Now, the Chairman mentioned that there was only one other time that Medicare actually paid out more than it took in—1972. There is only one other time that Medicare had three bad Trustee reports, that is, where the fund was going to go broke in 7 or fewer years—that is my definition of "bad"; that is worse than your definition; I am more liberal than your definition—but there was only one other time, and when that happened, Secretary Heckler got out there, and she raised you-know-what. And she came up with the DRG system because she said 7 years is too little.

Now, what is wrong with this is that the Republicans have been saying 7 years is too little, 6 years is too little. Now we are down to 5 years. So this does matter, and we need to have a better answer than estimates and within the accepted range of blah, blah, blah, because these are facts. These are not estimates. These are dollars and values.

And of course, if you see a loss in a company, you do not immediately make a judgment about whether that company is in trouble, but it is a big red flag, and you look at it differently than if it had been $36 million-plus. A $36 million-minus in the Medicare Fund is a flag that we all ought to care about.

Now, the reason this matters to me is that you guys let some of the physicians have a 12-percent increase in reimbursement rates last January. Why? Because you were not paying attention. If you were paying attention, you would have come to this Committee and said, "Change the law; we cannot let that go into effect."

It is the same thing that almost happened to Medicare Select except that, frankly, I was there, and I said this is going to expire.

We have got to mind the shop. Otherwise, we are not going to have a program.

Now, Madam Secretary—and I am sorry I am taking my time to tell you what I think, but this has not been the kind of quality dialog that I had expected from this hearing—but you keep going to the President's proposal. It is imperative to get on the record that the President's proposal to save the Medicare Trust Fund "saves part A by robbing part B."

And you know and I know that part of the way it "makes $125 billion in savings" is by moving the responsibility to pay for home health care from part A to part B.

Now, CBO, the Congressional Budget Office, states that is not Nancy Johnson. And that is one of the reasons why we are having trouble getting together. I have not met a senior out there in America who does not think that the Republican proposal says that upper-income seniors should pay more of their part B premiums is not fair and just. But you won't even consider it.

We have a 5-year problem now, and that 5-year problem is under your intermediate estimates. I would assume, looking at your other estimates, that under your most serious estimates, your worst case scenario, we are talking 4 years because your estimate backed up 1 year. You back up the lowest, your most serious estimate, 1 year, and you are down to 4 years now instead of 5.

So the business of the Nation and of the seniors and of all of us demands that we buckle down and do this. And $124 billion of which $35 billion is sleight of hand—or $50 billion; I have forgotten just which one—is sleight of hand and smoke and mirrors is not good enough. But that is for another time.

I have been part of the bipartisan group that has tried to negotiate. We just do not get clear input from you guys. One of the reasons why we are concerned is that your people put out a press release in October. They did not bother to tell you, you did not bother to tell the President, and we are 5 years from bankruptcy. We are into broke. When you are paying out more than you are taking in, you are broke. We are not bankrupt because we have assets in this program, but we are broke already, and we are going to be bankrupt in 5 years, and I challenge this administration to do something better than just oppose the Republican proposal.

Thank you.

Chairman ARCHER. The gentlelady's time has expired.

Secretary SHALALA. If I might respond, Mr. Chairman.

Chairman ARCHER. I don't think there was a question.

Secretary SHALALA. But the Congresswoman made some accusations. If I might respond.

Chairman ARCHER. Madam Secretary, you certainly shall have time to respond.

Secretary SHALALA. Congressman Johnson, you have made our case. We have been arguing about the urgency as Trustees from the beginning. But since you don't want me to talk about the President's Medicare proposal, suppose I make some points about your Medicare proposal.

Mrs. JOHNSON. Madam Secretary, I would be happy to talk about both of those proposals in a setting in which we could come to agreement. This hearing is about why this administration did not pay attention to warning signs that are so serious that they have not occurred since 1972, and when a similar situation, but not as bad, occurred in the early eighties, we took strong action.

Chairman ARCHER. The gentlelady's time——

Secretary SHALALA. Congressman Johnson, we have been warning the Congress since we arrived in this administration, in 1993, in 1994, in 1995, in reports of the Trustees——

Mrs. JOHNSON. Madam Secretary, it was all talk and no action.

Secretary SHALALA [continuing]. With language that could not be more urgent. And when the Republicans put a proposal on the table that does not weaken the Medicare Program, like the MSAs do, I would be happy to have——

Mrs. JOHNSON. Madam Secretary, our proposal does not weaken Medicare.

Chairman ARCHER. The gentlelady's time has expired.

Mr. Bunning.

Mr. BUNNING. Thank you, Mr. Chairman.

First of all, I would like to welcome the Secretaries to the "David Letterman Show" chaired by Charlie Rangel. They want to make light of the fact that there is a serious problem with our Medicare system, and we are serious about addressing it.

We are serious about the manner in which the deficit was released in an overall omnibus release out of the Treasury. Rather than coming to us and saying, Oh, by the way, we miscalculated, or our projections are not right, and saying while you are in budget negotiations that, by the way, those projections for Medicare, instead of a $4+ billion surplus, we are going to have a shortfall of $36 million.

Now, $36 million is not a lot in an overall program, but it does red flag the program as turning negative before the Trustees anticipated it turning negative, and that is a big problem.

I heard from both of the Secretaries—both of you in your statements today said that there were going to be cuts in Medicare, in the President's proposal—cuts in Medicare.

Secretary Rubin, you just said it. Secretary Shalala, you just said it—cuts in Medicare. Is that accurate—both of you?

Secretary RUBIN. I will speak for myself, and the answer is absolutely yes. In every company I ever worked on, Mr. Bunning, and I worked on a lot of them in the private sector, what you would do is you would take the programs that you had, you would project out, you would see what they would cost, and then, if you were going to try to reduce your expenses, you would say you were cutting your programs, and that is precisely the same approach that we took here. But what we did was we proposed cuts in the program that would maintain the effectiveness of the Medicare Program, and the concern we had——

Mr. BUNNING. Then, in other words, the President's——

Secretary RUBIN [continuing]. Was the cuts in excess of that—wait 1 minute——

Mr. BUNNING. The President's proposal actually cuts Medicare.

Secretary RUBIN. The cuts in excess of that would affect access and choice and were imprudent. What?

Mr. BUNNING. The President's proposal actually cuts Medicare.

Secretary RUBIN. It cuts Medicare below what it otherwise would have been, which is precisely the approach that I took in 26 years on Wall Street in dealing with private companies.

Mr. BUNNING. When Mrs. Clinton testified before this Committee—and I can get you the tape—Mrs. Clinton said that they wanted to cut Medicare, or the rate of growth, back to 6 percent.

The Republican proposal only reduces the growth to 7 percent, 1 percentage point higher than the Clinton proposal.

Secretary RUBIN. Well, but as you remember, Mr. Bunning, that was in the context of overall health care reform, which——

Mr. BUNNING. No. We are talking specifics. We are talking about Medicare.

Secretary RUBIN. No. We are talking about apples and oranges because one——

Mr. BUNNING. No. We are talking about Medicare. She was specifically talking——

Secretary RUBIN. Yes, but——

Mr. BUNNING [continuing]. And the question to her was a specific question on Medicare.

Secretary RUBIN. I understand that, Mr. Bunning, but I believe that you will find—I assume this was during the health care debate—yes, this was in the context of health care reform, and as you remember, the health care reform would have had effects on the expenses of the Medicare Program, and I think it was a very sensible approach to dealing with Medicare; unfortunately, not one in which we could engage enough Members of Congress to ultimately produce a health care reform program.

Mr. BUNNING. Well, we think it is a very serious problem, the problem that instead of 6, 7 years, that Medicare is going to in fact lose the surplus in 5 years, according to Ms. Shalala's testimony.

Secretary RUBIN. Mr. Bunning, we agree with you there is a red flag. There was a red flag in the 1995 April report, as Secretary Shalala said, there was a red flag in the 1994 report. There is no disagreement between the administration and the congressional majority about the need to address Medicare solvency.

Mr. BUNNING. Thank you, Mr. Chairman.

Chairman ARCHER. Mr. Cardin.

Mr. CARDIN. Thank you, Mr. Chairman.

In the event that some of my constituents might be listening to this hearing and trying to figure out what the purpose of the hearing is and what the current status is of Medicare, we are talking about the Medicare Part A Trust Fund dealing with hospitals. And our Republican friends want us to treat the Trust Fund very seriously, as a trust fund, as moneys that are there.

First, let me ask, has there been any change that would concern the hospitals in my district or my seniors in my district about getting their hospital bills paid in 1996?

Secretary SHALALA. No.

Mr. CARDIN. In fact, is there any danger from what you have projected that those bills will be paid in 1997 and 1998?

Secretary SHALALA. No.

Mr. CARDIN. So we are talking here about a change in a projection in the Trust Fund that does not immediately affect the hospitals in my district or my beneficiaries as far as being paid or reimbursed for hospital care?

Secretary SHALALA. Yes, Mr. Cardin.

Mr. CARDIN. You have stated a couple of times, both of you, and it has not been challenged, that the difference in the income coming into the Part A Trust Fund and the expenditures going out of the Part A Trust Fund, the actual 1995 figures were within the statistical range of historical data. Is that fairly accurate to say?

Secretary SHALALA. Yes. And we have also discussed the accuracy of the previous Trustees' Reports, and the ranges are consistent with the CBO's own projections and with their accuracy.

Mr. CARDIN. So both CBO and the Trustees have been somewhat consistent in these numbers. In fact, I think you said the Part B Fund expenditures were actually less than what had been projected.

Secretary SHALALA. Yes.

Mr. CARDIN. So, in one case, we spent more for hospital care and less for physician care than we anticipated—of course, they are separate trust funds, and we are here talking about the Part A Trust Fund, not the Part B Trust Fund.

Let me go back to fiscal year 1992. The figure that I have here is that the income was adjusted that year by 1.4 percent——

Secretary SHALALA. That is correct.

Mr. CARDIN [continuing]. Which is a higher variation than we are dealing with here, of a −1.2 percent—and the expenditures were misjudged by 5.6 percent in that year.

Secretary SHALALA. That is correct. The worst year of projections was in fact the last year of the Bush administration.

Mr. CARDIN. I guess that is the point I want to make. Does anyone here recall whether we had an emergency hearing of the Ways and Means Committee in order to deal with those changes in projections in calendar year 1992? I know you were not Secretary at the time, but I am just curious as to whether we had a hearing of our Committee to deal with those changes. And I must admit, I don't read every report that comes into the office. I did not read that report that came into the office. I am going to confess that I did not know about it until I read it in the paper. And I might have missed a hearing notice of this Committee.

But has there been a hearing scheduled on the debt extension in our Committee that either one of you have been advised of?

Secretary RUBIN. Not to the best of my knowledge, Mr. Cardin.

Mr. CARDIN. And if we don't pass legislation on the debt extension, is there a danger in 1996 that my hospitals may not get payment under Medicare, or that my beneficiaries might lose some coverage? Is that a real risk if no legislation moves through this Committee?

Secretary RUBIN. Well, let me give you a two part answer. One, there is no question in my mind, as Chairman Archer said, that this Nation is not going to default, but if that were to happen—which won't happen—then that would create very serious problems with respect to all the trust funds.

Mr. CARDIN. And you are talking about in the month of March, this coming month, we run the risk of having our hospitals in our districts not receiving Medicare payments because of the debt extension not being enacted upon in Congress? Yet, we have no hearings set on that issue? Yet we have a hearing set on a matter that does not affect the payment of my hospitals this year?

Secretary RUBIN. The debt extension is clearly an immediate issue that must be resolved promptly. The Medicare issue, as we have all agreed, is an extremely important issue, but it has a longer timeframe to it.

Mr. CARDIN. And as has been pointed out, the Clinton administration has come up with a proposal that they support that will extend the solvency for another 6 years or so beyond the current projections. We have, as the President said, agreement on some $120 billion of Medicare reductions. Yet we cannot get action in this Congress on what has been agreed upon by both Democrats and Republicans that could extend the solvency of the Trust Fund. We are having a hearing today to deal with an issue that does not affect the immediate problem. When we have an immediate problem, we don't have a hearing set on it with the debt extension.

It is baffling to my constituents and to me.

Chairman ARCHER. Mr. Houghton.

Mr. HOUGHTON. Thank you very much, Mr. Chairman.

I am not going to take long because I would like to yield some of my time to Mr. English, but Mr. Secretary and Madam Secretary, it is good to have you here.

I am not going to get into who did what when, and who forgot what when, because I do not think that is an argument that anybody is going to win. I have just a couple of points.

The numbers jumped around a bit, and I have some historical data, and the estimate in 1993 for 1994 was off on a plus side by about $3 billion. And if we had estimated in 1993 for 1995, it was pretty much what it was, what it came out. So it is very hard to sort of "G" in the forecast with what actually happened.

I guess the major thrust is this, and I am sure you recognize this. Is something different happening? Is there something we ought to be aware of now, both in terms of the Treasury and Secretary Shalala's department and Congress, so that we will do something different? We know we are on a slippery slope. We have already chopped off 1 year. This is a concern to an awful lot of people.

What should we be doing to make sure that this thing is looked at in terms of its trends, the actual numbers, and is there something we should be doing differently? I ask those questions.

Secretary SHALALA. Congressman Houghton, thank you for the question. Even though under the interim projections, the estimates that we were given were within the normal range of variation, we asked that the actuaries and our analysts look within those numbers to see if something different is happening. At that meeting, Bruce Vladeck said something about hospital admissions going up somewhat more than projected, from 3.2 to 3.5, but I specifically asked them to get inside the numbers.

For example, most recently, there may be some evidence that the hospitals are putting in their bills earlier than they have in the past. We need to find that out, and in our April report, we will report that to Congress in more detail. But since we don't have the final numbers yet, and the analysis goes on during the course of the year, and then we report in April, you can be assured that if something different is going on, we will report it in detail with as much accuracy as we can to Congress.

Mr. HOUGHTON. Yes, I think that is helpful, because—although this will not happen because the numbers dramatically changed in terms of their magnitude—if we slip a year, and next year we slip another year, that is something we have got to be very, very sure of.

Secretary SHALALA. Thank you very much, Congressman. And I want to make the point that even when the variations are within the range, it does not mean that we are not anxious to find out what is going on. It is very important in terms of the kinds of reforms that both Republicans and Democrats are talking about that we know what is going on in terms of Medicare expenditures, and that is exactly what we are trying to assure.

Mr. HOUGHTON. Sure. Secretary Rubin, do you have any comment?

Secretary RUBIN. No. I would exactly identify with Secretary Shalala's comments.

Mr. HOUGHTON. Fine. I yield to Mr. English, if that is all right, Mr. Chairman.

Chairman ARCHER. Mr. English.

Mr. ENGLISH. Thank you, Mr. Chairman, and I would like to thank the gentleman from New York, my distinguished neighbor, for allowing me to speak.

I have a comment and then a question for both Secretaries. I have listened with a great deal of interest to your testimony this morning, and I am intrigued by it.

Secretary Rubin, I do not have your financial expertise. However, I did serve as Trustee of a municipal pension system in the third largest city in Pennsylvania, and when we were facing a terrible financial problem, I felt obliged to go public with it because it was obvious that it would have a direct impact on the deliberations before city council occurring at that time.

Now, the gentleman from Maryland has suggested that since the bankruptcy of Medicare is a few years away, that perhaps this was not an immediate problem, but I think when Medicare goes bankrupt and how quickly it is going bankrupt, and the fact that it was already running a deficit would have had a direct bearing on the deliberations going on in Congress because of some of the kind of "feel good" statements coming from people who were part of that debate.

Having a fiduciary responsibility as Trustees for the system, don't you feel that you had a little more responsibility than simply making sure that a report was delivered on time that had in the body of its arcana a reference to the fact that part A was running a deficit for the first time since 1972?

Secretary RUBIN. Mr. English, there is nothing you have said that I would not agree with fully. We in our April report in 1995, and as Secretary Shalala said, also in 1994, said very specifically that the exhaustion date was much too close for comfort, and that it was imperative that we deal with the issue.

So I think there is no question that we have been focused on the imperativeness of resolving these issues—and I do not think the gentleman from Maryland was at all suggesting it was not important; he was just talking about the difference, I believe, between the immediacy of the debt limit issue and the fact that there is some time on this——

Mr. ENGLISH. My time has expired. I just wanted to suggest that I think when Trustees realize that an important milestone like this has been passed that they have an affirmative responsibility to call its attention to the public and not simply allow it to be buried in the details of a financial document. And I appreciate your coming here to testify today.

I thank the gentleman from New York.

Chairman ARCHER. Secretary Rubin, we have reached 12 o'clock. Can you stay any longer with us?

Secretary RUBIN. Mr. Chairman, I do have a little more time. I need to be back, if possible, for a meeting at 12:30.

Chairman ARCHER. Well, you certainly will be excused at whatever time you need to leave.

Secretary RUBIN. Thank you, Mr. Chairman.

Chairman ARCHER. Mr. Ramstad.

Mr. RAMSTAD. Thank you, Mr. Chairman.

Mr. Secretary, Madam Secretary. Secretary Shalala, I appreciate your point that the CBO reported information about Medicare in its November 7, 1995, analysis of the September Treasury statement. I think it would be important for the purposes of this hearing to examine the document itself. I believe you referred to it earlier. Do you have a copy of that document?

Secretary SHALALA. The CBO document.

Mr. RAMSTAD. Yes. The CBO document entitled, "Analysis of the September Treasury Statement."

Secretary SHALALA. I have it somewhere here.

[The following was subsequently received:]

NOTICE
Internal Memorandum
Not for Public Release

November 7, 1995

ANALYSIS OF THE SEPTEMBER TREASURY STATEMENT

The September surplus of $7.3 billion was $3.0 billion higher than a year ago but $1.7 billion lower than our estimate for the month. The fiscal year ended with a deficit of $163.8 billion, $39.3 billion below last year's deficit of $203.1 billion (see Table 1).

TABLE 1. BUDGET RECEIPTS, OUTLAYS, AND THE DEFICIT FOR SEPTEMBER 1995 (In billions of dollars)

Budget Aggregates[a]	September 1995	September 1994	Fiscal Year Totals 1995	Fiscal Year Totals 1994	Fiscal Year Totals Percent Change
Receipts	143.2	135.9	1,350.6	1,257.5	7.4
Outlays	135.9	131.6	1,514.4	1,460.6	3.7
Deficit/Surplus (-)	-7.3	-4.3	163.8	203.1	-19.3

a. Includes Social Security and Postal Service, which are off-budget.

The 1995 deficit was $10.8 billion lower than the CBO March baseline estimate but $2.4 billion higher than our August baseline estimate (see Table 2). CBO's deficit estimates were closer to the mark than OMB's. The President's February budget overestimated the 1995 deficit by $28.7 billion, and the OMB July mid-session review underestimated the deficit by $3.8 billion.

TABLE 2. BUDGET RECEIPTS, OUTLAYS, AND THE DEFICIT FOR FY 1995 (In billions of dollars)[a]

Budget Aggregates[a]	CBO March Baseline	CBO August Baseline	Actual	Actual Less CBO March	Actual Less CBO August
Receipts	1,355.2	1,356.7	1,350.6	-4.6	-6.2
Outlays	1,529.9	1,518.2	1,514.4	-15.5	-3.8
Deficit	174.6	161.4	163.8	-10.8	2.4

a. Includes Social Security and Postal Service, which are off-budget.

Receipts

Receipts in September were $143.2 billion, up $7.3 billion from a year ago but slightly ($0.8 billion) lower than we estimated for the month. September receipts and fiscal year totals are shown by major source in Table 3.

TABLE 3. SEPTEMBER RECEIPTS (In billions of dollars)

Major Source	September 1995	Fiscal Year Totals 1995	1994	Percent Change
Individual income taxes	60.9	590.2	543.1	8.7
Corporate income taxes	33.0	157.1	140.4	11.9
Social insurance taxes	39.9	484.5	461.5	5.0
Excise taxes	5.7	57.5	55.2	4.1
Estate and gift taxes	1.3	14.8	15.2	-3.0
Customs duties	1.6	19.3	20.1	-4.0
Miscellaneous receipts	0.8	27.3	22.0	24.2
Total Receipts	143.2	1,350.6	1,257.5	7.4

Note: Details may not add to totals because of rounding.

Receipts for the year totaled $1,350.6 billion, up 7.4 percent from 1994. This was $4.6 billion lower than our March baseline estimate and $6.2 billion lower than our August baseline update. The Administration's misestimates were comparable in magnitude although somewhat different in direction. Actual receipts were $4.2 billion higher than the February budget estimate but $7.3 billion lower than the mid-session review estimate. Table 4 provides a comparison of actual receipts by major source with the CBO March and August estimates.

Three quarters of the $6 billion receipt shortfall from our August baseline update was in individual income tax receipts, mostly in taxes withheld from paychecks. Withheld taxes come in at a rate of roughly $35 to $45 billion per month, making a divergence from projected levels of this size a persistent event. Divergences in other tax sources were small, with shortfalls in customs duty and Federal Reserve receipts edging out an overage in corporate income tax receipts.

TABLE 4. FISCAL YEAR 1995 RECEIPTS (In billions of dollars)

Major Source	CBO March Baseline	CBO August Baseline	Actual	Actual Less CBO March	Actual Less CBO August
Individual income taxes	593.7	594.9	590.2	-3.6	-4.7
Corporate income taxes	149.0	156.0	157.1	8.1	1.1
Social insurance taxes	493.8	483.8	484.5	-9.4	0.7
Excise taxes	55.9	58.1	57.5	1.6	-0.6
Estate and gift taxes	16.0	14.5	14.8	-1.2	0.3
Customs duties	21.3	20.3	19.3	-2.0	-1.0
Miscellaneous receipts	25.5	29.2	27.3	1.8	-1.9
Total Receipts	1,355.2	1,356.7	1,350.6	-4.6	-6.2

Note: Details may not add to totals because of rounding.

Outlays

September outlays of $135.9 billion were only $4.3 billion higher than a year ago and $0.9 billion higher than we estimated for the month. The higher-than-expected outlays in September can be attributed largely to the early payment of October's cost for rental assistance and public housing operating subsidies. Table 5 summarizes the September results and the fiscal year totals by major spending categories.

TABLE 5. SEPTEMBER OUTLAYS (In billions of dollars)

Major Source	September 1995	Fiscal Year Totals 1995	Fiscal Year Totals 1994	Fiscal Year Totals Percent Change
Defense-Military	25.0	259.6	268.6	-3.4
Social Security and Medicare	44.1	509.0	475.6	7.0
Other Major Benefits	30.4	331.0	319.1	3.7
Net interest on the public debt	19.9	239.2	210.6	13.6
Other federal programs	16.5	175.6	186.6	-5.9
Total Outlays	135.9	1,514.4	1,460.6	3.7

Note: Details may not add to totals because of rounding.

Outlays for the fiscal year totaled $1,514.4 billion, an increase of 3.7 percent from the 1994 level, the same percentage increase in outlays as for the previous year. Defense-Military outlays continued their downward trend, falling $9 billion (3.4 percent) below the 1994 level. Social Security benefits and Medicare outlays increased by $33 billion (7.0 percent) over 1994, about the same rate of growth as during the previous year.

Other major benefits grew by $12 billion (3.7 percent) in 1995, down slightly from the rate of growth in 1994 for this category of programs. Medicaid grants were up 8.6 percent, marginally above the 8.3 percent growth in 1994. Unemployment benefit outlays continued to decline in 1995, dropping $5 billion from the 1994 level. Food and nutrition outlays rose by only 2 percent in 1995 and supplemental security income benefits grew by less than 1 percent (1994 was boosted by an extra monthly payment because of the calendar). On the other hand, EITC outlays were up 30 percent over 1994.

Debt service costs rose sharply in 1995. Net interest on the public debt rose by $29 billion (13.6 percent) over the 1994 level. Other federal program outlays, however, fell by $11 billion (5.9 percent), but this was the result of spectrum auction receipts of $7.6 billion and a $10 billion increase in net negative outlays for deposit insurance programs. If these two items were excluded, other federal program outlays rose by $7 billion (3.6 percent) over the 1994 level.

TABLE 6. FISCAL YEAR 1995 OUTLAYS (In billions of dollars)

Major Source	CBO March Baseline	CBO August Baseline	Actual	Actual Less CBO March	Actual Less CBO August
Defense-Military	258.3	255.3	259.6	1.2	4.2
Social Security and Medicare	510.8	509.8	509.0	-1.9	-0.9
Other Major Benefits	333.3	331.5	331.0	-2.3	-0.5
Net interest on the public debt	243.5	240.4	239.2	-4.3	-1.1
Other federal programs	183.9	181.2	175.6	-8.3	-5.6
Total Outlays	1,529.9	1,518.2	1,514.4	-15.5	-3.8

Note: Details may not add to totals because of rounding.
a. Less than $50 million.

Total outlays in 1995 were $15.5 billion lower than we projected in our March baseline and $3.8 billion below our August update estimate. The comparable OMB misestimates were $24.5 billion for the February budget and $3.5 billion for the July mid-session review. As shown in Table 6, the bulk of the lower-than-expected spending from the CBO estimates were in the "other federal programs" category and involved a variety of programs including deposit insurance, CCC farm price supports, Public Health Service, Justice Department, NASA, and the Postal Service.

Defense-Military outlays were higher than both our March and August estimates, but these overruns were more than offset by shortfalls in other spending areas. Medicare outlays in total were $1.0 billion lower than projected in March and August, although hospital insurance (Part A) exceeded our projection by $1.4 billion while supplementary medical insurance (Part B) outlays fell short by $2.4 billion. Medicaid outlays, on the other hand, were quite close to our baseline estimates. The major shortfall from our March estimate for "other major benefits" was for the earned income tax credit, which was reflected in our August update.

October Projections

October receipts are estimated to be $97 billion and outlays $125 billion, giving a deficit of $28 billion for the month. Last year, October receipts were $89.0 billion, outlays were $120.4 billion, and the deficit was $31.3 billion.

Jim Blum
Rosemary Marcuss

Mr. RAMSTAD. If I could refer you, Madam Secretary, to table 3 on page 2 of that document. From the information listed, Madam Secretary, on the table, again just so we are on the same page, so to speak, could you tell me what the receipts are for Medicare payroll taxes on that page?

Secretary SHALALA [perusing document]. I think they have got Social Security and Medicare in the same numbers. If we are looking at the same document, they have combined the two.

Mr. RAMSTAD. They are gross figures for Social Security and Medicare, in other words?

Secretary SHALALA. Right.

Mr. RAMSTAD. Now let us look at the next page, at table 5 of the document.

Secretary SHALALA. Yes.

Mr. RAMSTAD. From the information listed on the table there, could you tell us where the outlays are for the Medicare HI Trust Fund on that page?

Secretary SHALALA. In both cases, it looks like they are combining both Social Security and the Medicare Trust Fund numbers.

Mr. RAMSTAD. Together?

Secretary SHALALA. Yes.

Mr. RAMSTAD. Lumped together. I think if we had time to go through the rest of the document, you would not find any reference, Madam Secretary, to the $36 million deficit in the Trust Fund spending over receipts in fiscal year 1995.

And frankly, Madam Secretary, with all respect, this document does not tell us anything about the financial activity, much less the financial condition, of the HI Trust Fund. It seems to me that your use of this document as one of your examples of—I think you used the words—how readily available this information about the Trust Fund is to Congress and the public, illustrates the very point we are trying to make today, that is, the administration was more interested in keeping this issue in the shadows rather than shedding light on the very pressing problem of the deficit in Medicare.

Secretary SHALALA. Congressman Ramstad, I should have been more comprehensive. Subsequent to the document, the November 7 document, the CBO staff on November 28, led by Paul Van de Water, who is the Assistant Director of their Budget Analysis Division, and his health staff spent an entire morning meeting with the HCFA actuaries to discuss the possible revisions to the CBO Medicare baseline in December. CBO was briefed extensively on the particular issues that we are discussing today. They had already acknowledged the Trust Fund shortfall in previous conversations with the HCFA actuaries. So CBO was not only informed; they went through their own briefings and spent considerable time with the HCFA actuaries. How they decided to use that information was public. It was used, obviously, to adjust the baseline. Whether they thought it was more dramatic than we did is obviously not evident, but let me simply make the case that CBO spent considerable time reviewing this issue with the HCFA actuaries and was very well-informed—as reflected in their own baseline adjustments and as reflected in Senator Domenici's own points in his own memo.

Mr. RAMSTAD. Well, Madam Secretary, I am not sure the fact that CBO was briefed extensively means that the information about the Trust Fund was, as you stated before, readily available to Congress and the public. As you have cited, the numbers in the document are gross figures.

Secretary SHALALA. Yes, I understand that, Congressman, but there is a series of documents in which this material was available. But remember, these are interim estimates.

We do present a public report. The Board of Trustees in April presents a public report. The information that we had in December would not have changed the conclusion that we came to in 1995, and that is that we advised the Congress that prompt, effective and decisive action is necessary. A change from 2002 to 2001 would not lessen the urgency of this Congress dealing this year with the issue of the Medicare Trust Fund. And I fully expect us to use the same kind of language in our 1996 report if these numbers hold up in the final analysis and recommendations that the actuaries give us.

Mr. RAMSTAD. Well, again, Madam Secretary—and my time is up, so I will conclude—but with all respect, it just seems to me that this was enough of a milestone that the administration should have been more forthcoming instead of letting things be rather obscured.

Secretary SHALALA. Yes.

Mr. RAMSTAD. Thank you, Madam Secretary.

Secretary SHALALA. I also would refer you to the last page of the document, which makes a specific point about the Medicare outlays. It says "Medicare outlays in total were"—and it goes through the Medicare outlays, so it is much more specific than the tables. That is on page 5 of the same report. But it does not change our final conclusions, and that is, I cannot repeat enough what I repeated in the other hearing that I had with this Committee, and that is that we must deal with the Medicare Trust Fund.

Chairman ARCHER. The gentleman's time has expired.

Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

Madam Secretary, Mr. Secretary, I am not so sure today whether we are holding a witch hunt, or an inquisition, or so-called hearing, but I am always happy to see you.

Let me just say that I am sorry we are here wasting your valuable time and wasting our valuable time. I do not think we need another so-called hearing that is used to attack you and criticize the administration and the President.

If you think back, Madam Secretary, we only had 1 day of hearings on the Republican Medicare bill. I think it is a shame and a disgrace that we have time for this hearing, but we do not have hearings for bills.

In fact, today, right now, we should be marking up a bill to extend the debt ceiling.

Mr. Secretary, are we facing a serious problem if we do not address the debt ceiling issue soon? What may happen if no action is taken by March 15, will we lose interest on the Trust Fund? It seems to me that if we are so concerned about the Medicare Trust Fund, we would act on the debt ceiling. If we do not, it could cost the Trust Fund money. Is that correct, Mr. Secretary?

Secretary RUBIN. Yes, Mr. Lewis. On March 15, there is about $2.2 billion, I believe, of cash proceeds that as a matter of law we will not be able to invest—cash proceeds going into the Medicare and Social Security Trust Funds, a total, I think, of a little over $9 billion for all the trust funds put together. And there is no restoration of interest provisions for those trust funds, so what you say is correct. Congress would have to legislate to provide the restoration of interest.

Mr. LEWIS. Do you have any legislation coming before you? Has anyone on the other side, the majority side, offered a proposal to you and to the administration?

Secretary RUBIN. No, they have not, Mr. Lewis. I think your basic point is exactly right. It is absolutely essential that this debt limit ceiling be increased on a long-term basis and that that be done very promptly.

Mr. LEWIS. Madam Secretary, it is my understanding that you, other members of the administration and the President are going all out to protect Medicare. This is how we should be spending our time—trying to address the big issue, the global picture of protecting Medicare.

Wouldn't you agree, and would you like to elaborate?

Secretary SHALALA. Congressman, we have laid out a plan that will extend the life of the Medicare Trust Fund, and that plan includes reductions in the growth for hospital updates and other special kinds of what we have both described as cuts of $124 billion.

In addition, we have made recommendations to this Congress that will allow for more choice for Medicare recipients but also allow us to get more efficiency in the system through PPOs, through PSOs, through improved payment methods, through stronger quality protections.

Our great concern is that the proposals that we have seen thus far from your Republican counterparts in fact have some suggestions that would weaken the Trust Fund. The medical savings accounts, the Congressional Budget Office has already said, are a coster—$4 billion wasted, that will come from the Medicare Trust Fund, that will weaken the Trust Fund, as well as other recommendations that will allow for cherrypicking or allow for things that we have banned before, like self-referrals by doctors, which the CBO has also said would weaken the Trust Fund.

It is time that we got on with this, and I repeat what I repeated at the single hearing that I attended on Medicare, and that is we must deal with the Trust Fund issue.

Mr. LEWIS. Madam Secretary and Mr. Secretary, thank you.

Mrs. JOHNSON [presiding]. Mr. Hancock.

Mr. HANCOCK. Madam Secretary, a real quick one. You said that allowing people to save their own money to pay their own medical bills is wasted money for the government?

Secretary SHALALA. I—excuse me?

Mr. HANCOCK. Yes, you did. You said that the MediSave plan was wasted money.

Secretary SHALALA. No. I——

Mr. HANCOCK. How can you logically say that to allow people to save their own money to pay for their own medical bills is wasted money from the government? I'm sorry, I——

Secretary SHALALA. Medical savings accounts—I did not say it. What I said was that the Congressional Budget Office said that we were spending money that we would not otherwise spend in the

Medicare system in medical savings accounts. I was simply quoting——

Mr. HANCOCK. Madam Secretary, Madam Secretary——

Secretary SHALALA [continuing]. The Congressional Budget Office.

Mr. HANCOCK [continuing]. You said that to allow people to save their own money to pay for their own medical bills was wasted money on the part of government. I beg your pardon——

Secretary SHALALA. The Congressional Budget Office has said that the——

Mrs. JOHNSON. I would like to recognize——

Secretary SHALALA [continuing]. Medical savings accounts will cost Medicare over $4 billion that we would not otherwise spend on the individuals who will participate in the program.

Mrs. JOHNSON. I would like to recognize Mr. English.

It is true that the Congressional Budget Office has estimated that provision of the Republican proposal to cost $4 billion. There is also a great deal of disagreement as to whether that is going to happen or not.

It is also true that Republicans believe very strongly that that will reduce the rate of growth in spending for those people. And so this is a difficult issue. It is a new approach to health insurance, and that is why there are legitimate differences about it.

Mr. English.

Mr. ENGLISH. Madam Chairman, I will yield my time.

Mrs. JOHNSON. Mr. Portman.

Mr. PORTMAN. I thank the Chairwoman, and I appreciate, Mr. Secretary, your staying for this final round of questioning, and Madam Secretary, thanks for being here.

I listened very carefully today Madam Secretary, to your testimony, and let me briefly summarize where we are and why this conversation today continues to concern me.

It is very important that we talk about this data which was not properly released because I think the perception of the problem is extremely important to solving the problem, and I think that that is something both the White House and the Congress have realized over the past year.

As I see it, in 1993, 1994 and 1995, you did indeed send us warnings, and you talked about that, Ms. Shalala, several times in your testimony, and how it was so important that we deal with this issue on an urgent basis. At the same time, there was no action. And when you testified before the Ways and Means Committee the last time, my whole point was to tell you that we were desperate; we begged for you to send us a proposal. Eventually, after we went ahead and came up with our proposal, which was criticized by the White House, there was a proposal forthcoming from the administration. Ours was about a $270 billion reduction in the rate of growth of Medicare. Your proposal was about a $124 billion reduction in the rate of growth.

Again, the issue became how much of a problem do we have, and that was the great challenge we had with the American people, was trying to explain on a factual basis where we actually were. And this is why this information which was not properly released is so important.

We then went through the process of the television ads, which were played in my district repeatedly, that demagogued the issue and misinformed the public as to what the problem was and what we were doing. We in turn moved from about a $270 billion reduction in the rate of growth to a $168 billion reduction in the rate of growth, so over $100 billion, in the process. I just ask you this question, because these are ongoing negotiations to try to save the program, has the administration moved from $124 billion? We have gone from roughly $270 to $168 billion.

Secretary SHALALA. Let me first, before we get into the negotiations, indicate that the material was properly released. We never publicly released information from the December meeting of the Medicare Trustees, but the official release of detail and data that was released was released in the proper channels. And the GAO report, which reviewed the release of this information, did not indicate that there was anything improper in the information we released, and that we annually released the details officially as part of our April report.

Mr. PORTMAN. I think we have gone over that in some detail today, and I purposely was not going to focus on that. If you would like to, I am happy to, because I think there was on the part of the fiduciaries of the Fund a responsibility to report the information properly, and it was not done so. But I am talking about what you said you wanted to talk about, which is the future and how we get there.

You have gone from $124 billion to where over the last year?

Secretary SHALALA. Let me say that we have been at $124 billion. Those are very deep cuts in the program, but at the same time, we have made recommendations that would make the program more competitive. We have objected to Republican proposals that would cost money, weaken the Trust Fund, and shift costs to beneficiaries. But we are not willing to do——

Mr. PORTMAN. Well, let me just focus on that, because——

Secretary SHALALA [continuing]. What you are obviously willing to do—we are not prepared to shift costs to beneficiaries.

Mr. PORTMAN. Well, I am willing to make significant changes to an entitlement program that needs changes, and you have not moved from $124 billion, which I guess is your answer. Let us talk about the beneficiaries. In your statement, you say that "Our proposal does not impose additional costs on beneficiaries." You also say in your statement to us this morning, "Beneficiaries' out-of-pocket expenses should not be substantially increased," implying, of course, that the Republican proposal does that.

Let us talk about that since you just brought it up again, because this is where we are getting into how do we bridge this gap. You say it is so important that we save the program, we say it is important, and yet there is no movement on your side, and there has been substantial movement on our side.

What is the difference in cost to the beneficiary over the next 7 years? It is my understanding that the difference between the administration's plan and ours is between $5 and $10 per beneficiary per month—$5 to $10 a month—is that what you would call a major difference, a substantial increase? Is that the reason why you are not willing to come together with us to solve the problem?

Secretary SHALALA. Congressman Portman, there is a significant hit on beneficiaries that goes beyond the amount of money that they would pay every month—balance billing; there are plans that the Republicans are putting forward that would allow doctors to charge anything on top. In addition to that, these proposals would hit low-income beneficiaries—the average Medicare recipient in this country has an income of $13,000 a year and already has 20 percent of that in out-of-pocket costs. They cannot get back into their Medigap plans if they go out into a managed care plan. That would impose a huge cost on a beneficiary, particularly those with preexisting conditions.

Throughout the Republican plan are hidden costs for beneficiaries that would make it very difficult for relatively low-income people. As people get older, they get poorer. Our concern is that they will not be able to use those Medicare plans at the end of the day because it will cost them too much to use those plans.

So it is not simply what they are going to pay for the basic insurance plan; it is all the other costs that they will have to pick up, particularly if they decide to go outside of traditional Medicare.

Our argument is let us protect the beneficiaries but slow down the growth; let us increase the efficiency of the system; let us make sure we have eliminated waste, fraud and abuse, aggressively; let us not mandate and take off some of the restraints that we have put in that will lead to more fraud in the system.

Mr. PORTMAN. I thank you for your statement. I don't think anybody on this panel, I hope, on our side or the other side would disagree with any of those principles that you outlined, and my question is, over the last year, we have changed our proposal substantially to address specific concerns raised by the administration, and why hasn't the administration been willing to bridge the gap. I think the answer is that there frankly is not the will to do so, so long as this can be a political issue, bandied about and demagogued.

Thank you, Mr. Chairman.

Secretary Shalala. I respectfully disagree, Mr. Portman.

Mr. LAUGHLIN [presiding]. The gentleman's time has expired.

Next, the Chair will recognize the gentleman from Washington, Mr. McDermott.

Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Rather than asking if I can show a videotape of the speaker saying that he wants Medicare to wither on the vine, I would like to ask you a serious question.

As you analyze these changes in the Trust Fund, we all know that the Republican Medicare proposal wants to put more senior citizens into managed care, but we know from a recent Mathematica study that Medicare managed care plans are being overpaid by almost 6 percent per enrollee. So it seems to me that the deficit which we are allegedly here discussing is caused in part by proposals which the Republicans are pushing and trying to expand.

In addition, my understanding is that the MSA proposal which they are proposing for Medicare would cost Medicare $4.6 billion over 7 years.

It seems to me that the proposals they are offering as solutions to the Medicare problem make its financial condition worse, and I would like your comments about what it is that they have proposed and what the President has proposed and what the differences are, and why the President's proposal is better, because I personally think the President has made a good proposal.

Secretary SHALALA. Two points about the Republican plans. One is that they do indeed have costers; that their proposals will weaken the Medicare Trust Fund directly, as you pointed out, with the medical savings accounts. But in addition, the medical savings accounts will also weaken the pool, because it will allow cherry-picking of those who are wealthier and healthier, which will incur costs on the Medicare Program.

The Republican plan has significant savings because they shift costs onto the beneficiaries, and as I pointed out, the average elderly person in the Medicare Program has an income of $13,000 a year. They already pay 20 percent of that in out-of-pocket health care expenses. They are being asked to go out into managed care companies or other kinds of alternatives that may be able to charge them more on top, and even if they went out into managed care, the Republican proposal does not allow them to come back into the traditional Medicare fee-for-service because they cannot get their Medigap plans back.

For a senior citizen, it is the worst of every world, choice that is not choice at all, increasing costs, weakening of the Medicare pool by putting in costers, and weakening of our ability to fight waste, fraud and abuse because of cuts in both HCFA Administration budgets as well as eliminating some of the referral restraints that we have put on in the past.

What the President does is protect beneficiaries, increase choice for the beneficiaries so that more beneficiaries can choose not only managed care, but PPOs and other kinds of new delivery systems. It protects them to come back into traditional Medicare if that is what they want to do, and at the same time, firmly squeezes down on the growth of the Medicare system, mostly on the provider side, which we think is very important.

Mr. MCDERMOTT. Do I understand what you are saying is that if someone chooses a managed care plan—some senior citizen—once they go into that, if they get dissatisfied with it, and they would like to go back into the fee-for-service system, they will not be able to get Medigap insurance? Is that what you are saying?

Secretary SHALALA. That is what I am saying. If you will remember, the Medigap period for enrollment is the first 6 months, and there is no provision in the Republican plan that if you go out to a managed care plan that you can go backward and go back in. So it is not real choice.

Real choice is where you could go back and forth and change your mind. Many seniors may not like managed care. They may well want to go back into traditional Medicare, into the fee-for-service. Most of them will have preexisting conditions, so they won't be able to get their Medigap plans back. We will not be able to protect them under the Republican plan to go back into Medigap.

Mr. MCDERMOTT. My understanding is that there are 9 million widows in this country living on less than $8,000 a year. Is that correct?

Secretary SHALALA. That is correct.

Mr. MCDERMOTT. And that is the group that would be incurring additional costs under the Republican plan; the Republicans would be shifting that cost onto those beneficiaries, the 9 million or so widows making less than $8,000 a year.

Secretary SHALALA. That is exactly right.

Chairman ARCHER. The gentleman's time has expired.

Mr. Laughlin.

Mr. LAUGHLIN. Thank you, Mr. Chairman.

Secretary Shalala, thank you for being here, and I know Secretary Rubin had another meeting to go to, and I am sorry that he could not be here, but I would ask you to pass on why I think this hearing is so important.

Unlike Secretary Rubin, I never worked on Wall Street, and unlike Secretary Rubin, I never knew a Rhodes scholar until I met President Clinton at the White House. I talk to an awful lot of people in my State and my district who are greatly concerned about Medicare and its impact on their lives, and I think I have more in common with those people, who have never met a Rhodes scholar or worked on Wall Street.

The dollars that we are talking about here are out of the imagination of people like me and most of the people out here, dependent upon Medicare. When I hear that there is a projected surplus of about $4.7 billion, and then, in October, someone—not you and not Secretary Rubin and not the President, but someone reportable to you—makes a determination that we are going to have a shortfall of about $36 million, and while the math is not accurate, it is about a $5 billion shift, that is real money to the people whom I talk to. I think that you and Secretary Rubin particularly, who are Trustees, have an obligation to those people out there that this amount of money amounts to real money. While it may be insignificant to people who have Wall Street backgrounds, these are significant shifts of money for which they feel—and I have heard this said many times in the last several weeks—someone should have been talking about.

So I think that is the real reason, and the important reason, for this hearing. I hear a lot of them talking about the rhetoric that comes out of Washington, DC, by some, that strikes fear in the hearts of citizens that Medicare is going to go away. And then we have the problem of what many would consider significant dollars in the forecast, either disappearing or not meeting the expectations.

And with this great debate going on in the National Capital, don't you feel that the people out there in the countryside are entitled to know when this significant amount of money does not remain on the books or remain to be used in this debate whether we have medical savings accounts or whether we leave the system as it has been for the last 30 years and just raise taxes?

Secretary SHALALA. Congressman Laughlin, not only do I believe that everyone should know that the Medicare Trust Fund is in trouble and must be dealt with, but we said it in 1993, we said it in 1994, we said it in 1995; we said it was urgent, that it had to be dealt with directly and quickly, and I am repeating it in 1996. There is no question in my mind.

It does not have anything to do with just the estimates that we were given in December. Without those estimates, I would have the same note of urgency in my voice that I had in 1993, in 1994, in 1995, and now in 1996.

Mr. LAUGHLIN. Well, while I have heard repeated references to Senator Domenici—and I am sure that his report gives some comfort to whomever failed to bring to your and Secretary Rubin's attention this problem—he is not a Trustee, is he, with an obligation to the Congress and the American people? He is not a Trustee of this Trust Fund, is he?

Secretary SHALALA. He is not.

Mr. LAUGHLIN. And the last thing I want to ask is this. There has been great reliance upon the "Treasury Notes" dated October 27, and now I have forgotten, because time has passed, whether it was you or Secretary Rubin—and it is now important—who was here. One of you testified that in this report, it was highlighted about the shortfall. And the way I understand the word "highlighted" in a report, it tells me that it either marks a lot in some unusual color, or "Please Note" in capital letters, or "Important to Observe," or just some kind of warning in the document. And with all due respect to both you and Secretary Rubin, I have looked through this, and I do not find any highlighting of the information you all are here testifying about, that somebody on the congressional staff should have found.

Secretary SHALALA. Congressman Laughlin, in 1993 in April, a few minutes after we had come to office——

Mr. LAUGHLIN. Secretary Shalala, I want to interrupt——

Secretary SHALALA [continuing]. We warned about the condition of the Trust Fund; in 1994, we warned about the condition of the Trust Fund. The urgency has been with us——

Mr. LAUGHLIN. My question was not about 1994, and the red light is on, but do you find anything highlighted in the "Treasury Notes" that we have been referenced, and either you or Secretary Rubin said it was highlighted?

Secretary SHALALA. Congressman Laughlin, there is nothing in that report that would change the conclusion that I have given this Congress as a Trustee of the system since we arrived in 1993. We must deal with the Medicare Trust Fund now.

Chairman ARCHER. The gentleman's——

Mr. LAUGHLIN. I understand your answer. It does not answer my question.

Mr. Chairman, would you instruct the witness to answer my question, Where is it highlighted in this document?

Chairman ARCHER. I think she has responded that it is not. But the gentleman's time has expired.

Mr. LAUGHLIN. Thank you, Mr. Chairman.

Chairman ARCHER. Mr. Levin.

Mr. LEVIN. Welcome. When did you first hear about this letter of February 5, signed by four Members of the House? Do you remember?

Secretary SHALALA. I am sorry?

Mr. LEVIN. This letter that was sent to you on February 5, do you remember—did any of the four call you about this subject matter?

Secretary SHALALA. No.

Mr. LEVIN. So they sent you a letter.

Secretary SHALALA. Actually, I heard about it in a press statement from a reporter.

Mr. LEVIN. I think so. In other words, this is a matter of major importance, a letter is sent to you, and no one calls you?

Secretary SHALALA. No.

Mr. LEVIN. Did Chairman Archer call you?

Secretary SHALALA. No.

Mr. LEVIN. Did Mr. Bliley call you?

Secretary SHALALA. No.

Mr. LEVIN. Did Mr. Thomas call you?

Secretary SHALALA. No.

Mr. LEVIN. Did Mr. Bilirakis call you?

Secretary SHALALA. No.

Mr. LEVIN. And you first heard about this from a reporter?

Secretary SHALALA. Yes.

Mr. LEVIN. Was there a press conference—apparently, there was a press conference about this letter before you received it?

Secretary SHALALA. I do not remember that, but I do remember that I first heard it in a press——

Mr. LEVIN. This is the letter to you dated February 5, regarding this matter, and saying they were shocked to read press reports. That is the letter you are referring to?

Secretary SHALALA. Yes.

Mr. LEVIN. Do these four gentleman know the telephone number of HHS?

Secretary SHALALA. I am sure they do.

Mr. LEVIN. Now let me ask you about CBO——

Chairman ARCHER. Will the gentleman yield?

Mr. LEVIN. I will.

Chairman ARCHER. The gentleman has referred to a letter that I signed. The letter was in the Secretary's office before the press ever knew anything about it, number one. I cannot vouch for how quickly information gets to the Secretary; some of this hearing today is devoted to that very issue. But the letter was certainly there——

Mr. LEVIN. Mr. Chairman——

Chairman ARCHER [continuing]. And if the gentleman would yield for just one small additional comment, had we received a letter on October 27, we would have been much better advised as to the condition of the Trust Fund.

Mr. LEVIN. If I could say a word——

Chairman ARCHER. I thank the gentleman for yielding.

Mr. LEVIN. What disappoints me most about the way you all have proceeded in holding this hearing is that I thought this year might be different from last year. I still have hope that we can proceed in some type of bipartisan manner on other important issues.

This hearing has the exact opposite purpose or surely tone to it. No one called the Secretary about this matter. A letter was sent, and then a press conference was held. A press conference was held

I think the next day. CBO had full knowledge of this, and I cannot ask you questions, but I wonder whether CBO notified any of you. They put this into their assumptions. They worked for you. Instead of having Donna Shalala, you ought to have CBO here and your own staff. Your staff received a copy of this material.

I am not faulting your staff or faulting June O'Neill; she handled it the same way that HHS did, and Mr. Domenici—it is his words, Mr. Laughlin; it is their words. The word "significant" comes from them, not from Donna Shalala. It says, "The recent change in projections do not significantly affect the longrun Medicare situation." And the Senate Budget Committee gives your conspiracy theory an "F."

And the disturbing thing is that it is being pursued here when we should be working on a bipartisan basis to resolve the Medicare issue. There is a shortfall, and that is the most disturbing part of this. She hears about this through a press report instead of someone picking up the telephone and trying to discuss this on a sensible, rational basis.

Chairman ARCHER. Mr. English.

Mr. ENGLISH. Secretary Shalala, this hearing has run a long time, and I will try to be brief. I have already made one comment previously.

I want to thank you for being here. I think clearly the point of what we are discussing today is the timely presentation of this information to the American public, and the fact that part A was going south a lot quicker than a lot of us had originally thought.

You have pointed out correctly that last year, you were one of the Trustees who called our attention to this problem, and I have applauded your report in town meetings in my district.

However, the fact that it was not called vividly to the attention of the American public at a time when we were debating Medicare, and a lot of people have had questions about why this issue had even come up, or whether there was really a crisis in Medicare. You have made it clear that you think there is a crisis in Medicare. There are some among my colleagues who have made statements that were more doubtful. I have to say this information coming available when it did might have had a substantial difference in the debate, might have shaped public perceptions of the nature of the problem, might even have changed the outcome of some of the debates in the House, simply because I think that if more of my colleagues had had access to this information, they might have taken this problem more seriously, and we would have seen more bipartisanship in the Medicare reform issue as it had been debated.

I think the point of this hearing has been to explore whether we could have gotten the information sooner, whether the American public could have had access to it, whether it could have been introduced into the public debate; and, contrary to some of my colleagues on this panel, I do not think that is a trivial issue.

I want to give you credit for the positive efforts that you have made. As I think I have made clear, and I do not want to belabor the point, I am disappointed that it was not made public several months earlier than it was. I have your word on the fact that this was nothing deliberate on your part, and certainly, I think we have buried the notion that today's hearing was in any way a witch hunt. This was on a very substantive issue which I think was within the Committee's jurisdiction and is of immediate concern to the American public.

Mr. Chairman, I would be happy to yield back the balance of my time.

Chairman ARCHER. I thank the gentleman for yielding.

Madam Secretary, I understand that you also, as all of us do, have schedule constraints, and that you need to leave at 12:45, so we will have one last questioner, Ms. Kennelly.

Ms. KENNELLY. Thank you, Chairman Archer.

I think it has come out clearly in this hearing that when you get all through what has been said, the facts that we are looking at today are very important facts because they relate to the solvency of the Medicare Fund. We all wish that we had all read every last word in that monthly Treasury report, but a lot of people did not. And I just want to salute you for the work you have done this year. I have met with you, and every member of this panel has met with you on the solvency of Medicare, and I think the one thing that should come out of this hearing is that we all agree that we are very, very committed to the solvency of Medicare, and I thank you for that.

Secretary Shalala, I wonder if you would comment to me about medical savings accounts. What I find when I go home is that medical savings accounts are not totally understood and also that there is a difference between medical savings accounts for someone who is 25 years old and someone who is 65 years old.

So I wonder if, before you leave us today, having really withstood a good deal of questioning, and you have handled yourself as you always do, could you comment on the medical savings account—but before you do that, I just thought of something. The next summary of Medicare solvency comes out, I believe, in April?

Secretary SHALALA. Yes.

Ms. KENNELLY. I have the feeling that everybody will read every word of the next report of the Trustees. Is there any possibility that report might be late, Madam Secretary, because of the closing down of the government?

Secretary SHALALA. Well, it may be late because of the closing down. We are trying to make sure that we get it as much on time as possible, and I would be happy to come up and brief the Members of this Committee early, as soon as it is ready to go into printing or something, if the Committee would like that. But at the moment, I think——

Chairman ARCHER. I think that would be very helpful. Thank you.

Secretary SHALALA. At the moment, I think we are working very hard, but I did get some information that the dates may slip because of the furlough. And, in fact, that Trustee meeting that we were talking about happened during the furlough, too, so we have been working with less staff than we normally do.

Ms. KENNELLY. I am asking you this about the medical savings accounts because we don't know what will exactly happen as we move forward. I think we all hope that there is a budget that we can agree to. But I come from Hartford, Connecticut, which has an interest in insurance, and I know the difficulty of doing a risk adjuster, so I wish you would comment on how you think medical savings accounts would affect Medicare if in fact they were enacted.

Secretary SHALALA. All of the analysts who have looked at medical savings accounts, including the Congressional Budget Office, believe that basically, they would segment the market and allow those sponsors of the medical savings accounts to take out of the pool those elderly people who are healthier and wealthier. These are people who currently probably do not use very much Medicare money, and then give them money that we would not otherwise be spending on them.

An example of these kinds of people would be my mother, who is 84 and plays tennis every day and is very healthy, who barely dips into her Medicare insurance. We would be allowing her to get money from the government that she would not otherwise get, and that would weaken the Medicare Trust Fund because it would take a healthier population out of it—but it is precisely why the Congressional Budget Office said it would cost $4 billion as opposed to saving money.

We believe that senior citizens ought to have alternatives, but that those alternatives ought not to weaken any of the markets and cost the Medicare Trust Fund more money than it would be currently spending.

Right now, I think about 11 percent of Medicare recipients never dip into the Medicare Fund, and we have to be very careful that we do not do something with them, spend money on them that we are not now spending on them, because that is the way in which we can spend money on those who are less healthy.

Ms. KENNELLY. So it is wise of me to keep looking at that.

Secretary SHALALA. Absolutely.

Ms. KENNELLY. Thank you very much, Madam Secretary.

Chairman ARCHER. Madam Secretary, thank you for taking the time today. It has been over 2 hours, and we are very grateful for that time. We know you have other duties, so you certainly are excused to go attend to those duties.

Thank you very much.

Secretary SHALALA. Thank you very much, Mr. Chairman.

Chairman ARCHER. Our next, Sarah Jaggar, Director of Health Financing and Public Health Issues of the GAO.

Ms. Jaggar, thank you very much for coming to help us through this process today. We would appreciate your statement, and you may proceed.

STATEMENT OF SARAH F. JAGGAR, DIRECTOR, HEALTH FINANCING AND PUBLIC HEALTH ISSUES, HEALTH, EDUCATION, AND HUMAN SERVICES DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Ms. JAGGAR. It is a pleasure to be here, Mr. Chairman.

Mr. Chairman and Members of the Committee, you asked us to be here today to testify on our ongoing review of the status of Medicare's Federal Hospital Insurance Part A Trust Fund. Specifically, the Committee asked us to determine, first, when the administration became aware that the Trust Fund had an operating deficit of $36 million for fiscal year 1995 and how the information was disseminated, and second, the status of current projections regarding the Trust Fund.

With your permission, I will summarize my statement and request that the full statement be submitted for the record.

Chairman ARCHER. Without objection, so ordered.

Ms. JAGGAR. First, when did the operating deficit become known? The fact that the Part A Trust Fund had run an operating deficit during fiscal year 1995 was first published in a Department of the Treasury monthly report dated October 27, 1995. Table 8 in the Treasury report showed that the Trust Fund had cash receipts of $114.85 billion and cash outlays of $114.88 billion, resulting in an operating deficit of $36 million during 1995.

[The report is being held in the Committee's files.]

Ms. JAGGAR. HCFA's Chief Actuary told us he became aware of the operating deficit in late November 1995, after HCFA received from the Department of Treasury more detailed monthly tables on the Part A Trust Fund.

On December 2, in response to the HCFA Administrator's request several days earlier for an update on Medicare and Medicaid spending, the Chief Actuary sent the Administrator an electronic mail message explaining the operating deficit. In a December 6 electronic mail message, the Chief Actuary told the Administrator that if the assumptions used for the April 1995 Trustees' Report were applied without change to the new data, the Trust Fund depletion date would advance from the end of calendar year 2002 to roughly the middle of calendar year 2001. He pointed out that changes to the assumptions could advance or postpone the depletion date somewhat, but he would not know for sure until the estimates for the 1996 Trustees' Report are completed.

The Secretary of HHS was informed by memo dated December 8, 1995, that she would be briefed by the HCFA Administrator on the Social Security and Medicare Trust Funds in preparation for the biannual Trustees meeting and that one important item to be discussed was the part A operating deficit. This briefing occurred on December 11. The other Federal Trustees were also briefed individually before the Board of Trustees meeting.

The Board of Trustees biannual meeting was held on December 13, 1995. All of the Trustees, which include the Secretaries of Labor, HHS and the Treasury, the Commissioner of Social Security and two public Trustees, participated in the meeting, which was chaired by the Secretary of the Treasury.

Also on December 13, the Congressional Budget Office released its updated budget baseline, which reflected the fiscal year 1995 data on the Part A Trust Fund. The overall spending estimates for Medicare for fiscal years 1996 through 2002 decreased slightly.

OMB staff became aware of the part A operating deficit for fiscal year 1995 in December 1995. An OMB official advised the Special Assistant to the President for Health Policy Development of the operating deficit sometime after the December 13 Board of Trustees meeting.

In our discussions with the Chief Actuary and a public Trustee who attended the December 13 Board of Trustees meeting, they said that the news of the operating deficit for fiscal year 1995 did not seem to cause alarm. They stated that the need for corrective action was clear in prior Trustees' Reports, and that the Trust Fund's 1995 performance did not change this need.

The Chief Actuary and the public Trustee also remembered a question being asked about the Part A Trust Fund deficit, related to whether this information would be fully discussed in the 1996 Trustees' Report. The question was answered in the affirmative.

Now, second, I would briefly like to mention the status of current projections regarding the Trust Fund. The Part A Trust Fund had an operating deficit in October and November 1995, but the monthly Treasury statement for December 1995 showed that the Part A Trust Fund generated a surplus of $747 million for the first quarter of fiscal year 1996. The surplus for the first quarter of fiscal year 1995, in contrast, was $3.3 billion.

The Office of the Actuary has been trying to identify reasons for the estimating error in the 1995 Trustees' Report. Preliminary data indicate that hospitals had speeded up the submission of claims, causing some claims to be paid in September rather than October. Because the Trust Fund numbers are presented on a cash basis, this resulted in higher than expected outlays in fiscal year 1995. In addition, preliminary data indicate that admissions to hospitals and the case mix index of admissions also increased at faster rates than had been estimated, which would tend to increase outlays. Finally, Trust Fund receipts were somewhat below projected amounts.

The Office of the Actuary expects to complete its analysis for the 1996 Trustees' Report by late March or April.

This completes my prepared statement. I will be glad to answer any questions you may have.

[The prepared statement and attachments follow:]

STATEMENT OF SARAH F. JAGGAR
DIRECTOR
HEALTH FINANCING AND PUBLIC HEALTH ISSUES
U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Committee:

You asked us to testify today on our ongoing review of the status of Medicare's Federal Hospital Insurance (part A) Trust Fund. Specifically, the Committee asked us to determine (1) when the administration became aware that the trust fund had an operating deficit--that is, cash outlays exceeded cash receipts--of $36 million for fiscal year 1995 and how the information was disseminated and (2) the status of current projections regarding the trust fund.

To address your questions, we spoke with officials of the Departments of Health and Human Services (HHS), Labor, and the Treasury; the Health Care Financing Administration (HCFA), including its Chief Actuary; the Congressional Budget Office (CBO); the Office of Management and Budget (OMB); the Social Security Administration; and one of the public members of the Board of Trustees. We also obtained relevant documents from these officials and reviewed the monthly cash-basis part A trust fund reports for fiscal years 1991 through 1995 and the first quarter of fiscal year 1996.

The Board of Trustees'[1] annual report issued in April 1995 estimated that the part A trust fund would have an operating surplus in fiscal year 1995, just about break even in fiscal year 1996, and move to an operating deficit in fiscal year 1997.[2] The Trustees projected that the fund would be depleted in calendar year 2002. The fund actually had an operating deficit for fiscal year 1995.

WHEN DID THE OPERATING DEFICIT BECOME KNOWN?

The fact that the part A trust fund had run an operating deficit during fiscal year 1995 was first published in a Department of the Treasury monthly report[3] dated October 27,

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[1]The Federal Hospital Insurance Board of Trustees consists of the Secretaries of Health and Human Services, Labor, and the Treasury; the Commissioner of Social Security; and two members who represent the public.

[2]The Trustees' report presents three sets of estimates based on high cost, low cost, and intermediate sets of assumptions. In this testimony, we use the estimates based on the intermediate assumptions, which are those the Trustees considered the most likely to occur.

[3]Final Monthly Treasury Statement of Receipts and Outlays of the United States Government for Fiscal Year 1995 Through September 30, 1995, and Other Periods (Washington, D.C.: Department of the

1995.[4] This report includes a number of tables summarizing the financial activities of the federal government.[5] HCFA's Chief Actuary told us he became aware of the operating deficit in late November 1995 after HCFA received from the Department of Treasury more detailed monthly tables on the part A trust fund.[6]

On December 2, in response to the HCFA Administrator's request several days earlier for an update on Medicare and Medicaid spending, the Chief Actuary sent the Administrator an electronic mail message explaining the operating deficit. The message stated that cash outlays were $3.3 billion higher than estimated in the Trustees' 1995 report and that cash payroll tax receipts were $1.6 billion lower, accounting for most of the estimating error.

In a December 6 electronic mail message, the Chief Actuary told the Administrator that, if the assumptions used for the April 1995 Trustees' report were applied without change to the new data, the trust fund depletion date would advance from the end of 2002 to roughly the middle of 2001. He pointed out that changes to the assumptions could advance or postpone the depletion date somewhat, but he would not know for sure until the estimates for the 1996 Trustees' report are completed.

The Secretary of HHS was informed by memo, dated December 8, 1995, that she would be briefed on the Social Security and Medicare trust funds in preparation for the biannual Trustees meeting and that one important item to be discussed was the part A operating deficit. The Administrator briefed the Secretary of HHS on December 11 on the trust fund operating deficit and other matters related to the upcoming Trustees meeting, and the other federal Trustees were also briefed individually before the Board of Trustees meeting on December 13, 1995. The Administrator's briefing document basically covers the items included in the two electronic mail messages from the Chief Actuary to the Administrator.

Treasury, Oct. 27, 1995).

[4]This report is routinely distributed to about 2,400 addressees.

[5]Table 8 in the Treasury report showed that the trust fund had cash receipts of $114.85 billion and cash outlays of $114.88 billion, resulting in an operating deficit of $36 million. (See appendix I for a copy of table 8.)

[6]About 3 weeks after HCFA receives the Treasury's monthly receipts and outlays report, Treasury also sends a more detailed monthly set of tables on the part A trust fund.

The Board of Trustees biannual meeting was held on December 13, 1995. All of the trustees participated in the meeting, which was chaired by the Secretary of the Treasury.

Also on December 13, CBO released its updated budget baseline,[7] which reflected the fiscal year 1995 data on the part A trust fund. The overall spending estimates for Medicare for fiscal years 1996 through 2002 decreased slightly.[8] While CBO's March 1995 baseline had underestimated part A expenditures by about $1 billion, it said that lower inflation would largely offset the rise in spending. CBO did not make an estimate of trust fund receipts and has not updated its estimate for the date the trust fund will be depleted.

OMB staff became aware of the part A operating deficit for fiscal year 1995 in December 1995. An OMB official advised the Special Assistant to the President for Health Policy Development of the operating deficit sometime after the December 13 Board of Trustees meeting.

In our discussions with the Chief Actuary and a public trustee who attended the December 13 Board of Trustees meeting, they said that the news of the operating deficit for fiscal year 1995 did not seem to cause alarm. They stated that the need for corrective action was clear in prior Trustees' reports and that the trust fund's 1995 performance did not change this bottom line. Outlays have been growing faster than receipts in recent years, leading to the operating deficit.

The Chief Actuary and the public trustee also remembered a question being asked about the part A trust fund deficit related to whether this information would be fully discussed in the 1996 Trustees' report. The question was answered in the affirmative.

STATUS OF CURRENT PROJECTIONS REGARDING THE TRUST FUND

The part A trust fund had an operating deficit in October and November of 1995, but the monthly Treasury statement for December 1995 showed that the part A trust fund had generated a surplus of $747 million for the first quarter of fiscal year 1996. The surplus for the first quarter of fiscal year 1995 was

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[7]The Economic and Budget Outlook: December 1995 Update (Washington, D.C.: CBO, Dec. 1995).

[8]Spending on part A and part B (Supplemental Medical Insurance) was estimated to be $45 billion lower than in the March 1995 baseline, mainly because part B spending was about $2 billion lower relative to CBO's March 1995 baseline for fiscal year 1995.

$3.3 billion, as shown in appendix II.

The Office of the Actuary has been trying to identify reasons for the estimating error in the 1995 Trustees' report. We were told that a number of possible reasons are being explored. Preliminary data indicate that hospitals had speeded up the submission of claims, causing some claims that normally would have been paid in October to be paid in September. Because the trust fund numbers are presented on a cash basis, this would result in higher than expected outlays in fiscal year 1995. In addition, preliminary data indicate that admissions to hospitals and the case mix index of admissions also increased at faster rates than had been estimated. Both of these factors would tend to increase outlays. Finally, trust fund receipts were below projected amounts.

The Office of the Actuary expects to complete its analysis for the 1996 Trustees' report by late March or April.

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This completes my prepared statement. I will be glad to answer any questions you may have.

For more information on this testimony, please call Tom Dowdal, Assistant Director, at (202) 512-6588. Other major contributors were Roger Hultgren and Pete Oswald.

TREASURY'S FISCAL YEAR 1995 TRUST FUND SUMMARY

Table 8. Trust Fund Impact on Budget Results and Investment Holdings as of September 30, 1995

[$ millions]

Classification	This Month			Fiscal Year to Date			Securities held as Investments Current Fiscal Year		
							Beginning of		Close of This Month
	Receipts	Outlays	Excess	Receipts	Outlays	Excess	This Year	This Month	
Trust receipts, outlays, and investments held:									
Airport	333	777	−445	6,125	7,242	−1,117	12,206	11,547	11,145
Black lung disability	416	462	−46	987	987	(* *)	......	......	......
Federal disability insurance	4,749	3,606	1,143	70,215	41,380	28,835	6,100	34,146	35,225
Federal employees life and health	......	−145	145	......	−1,240	1,240	22,503	23,601	23,729
Federal employees retirement	24,375	3,268	21,108	66,821	38,899	27,923	346,317	353,081	374,219
Federal hospital insurance	9,150	10,271	−1,121	114,847	114,883	−36	128,716	130,931	129,864
Federal old-age and survivors insurance	26,560	24,569	1,991	326,084	294,474	31,611	413,425	445,944	447,947
Federal supplementary medical insurance	1,746	5,903	−4,157	58,169	65,213	−7,044	21,489	17,673	13,513
Highways	2,115	2,340	−226	23,613	22,688	925	17,694	18,846	16,531
Military advances	967	1,314	−347	12,469	13,417	−948	......	......	......
Railroad retirement	451	675	−224	9,093	7,924	1,169	12,203	14,063	14,440
Military retirement	918	2,386	−1,468	34,624	27,797	6,827	105,367	114,320	112,963
Unemployment	336	1,801	−1,465	32,820	25,282	7,539	39,788	48,660	47,141
Veterans life insurance	23	110	−86	1,356	1,231	126	13,477	13,690	13,606
All other trust	525	555	−30	6,056	4,346	1,710	12,317	14,180	14,060
Total trust fund receipts and outlays and investments held from Table 6-D	**72,665**	**57,893**	**14,772**	**763,281**	**664,521**	**98,760**	**1,151,801**	**1,240,682**	**1,256,385**
Less: Interfund transactions	27,150	27,150	......	212,849	212,849	......			
Trust fund receipts and outlays on the basis of Tables 4 & 5	45,515	30,742	14,772	550,432	451,671	98,760			
Total Federal fund receipts and outlays	**100,994**	**108,480**	**−7,486**	**835,221**	**1,097,794**	**−262,573**			
Less: Interfund transactions	443	443	......	975	975	......			
Federal fund receipts and outlays on the basis of Table 4 & 5	100,551	108,037	−7,486	834,245	1,096,819	−262,573			
Less: Offsetting proprietary receipts	2,846	2,846	......	34,101	34,101	......			
Net budget receipts & outlays	**143,219**	**135,933**	**7,286**	**1,350,576**	**1,514,389**	**−163,813**			

... No transactions.

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds such as Federal payments and contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipts side of such transactions is offset against budget outlays. In this table, Interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds respectively.

Note: Details may not add to totals due to rounding.

Source: Final Monthly Treasury Statement of Receipts and Outlays of the United States Government for Fiscal Year 1995 Through September 30, 1995, and Other Periods (Washington, D.C.: Department of the Treasury, Oct. 27, 1995).

RECEIPTS, OUTLAYS, AND BALANCE OF FEDERAL HOSPITAL INSURANCE TRUST FUND FOR FISCAL YEARS 1991-95 AND FIRST QUARTER OF FISCAL YEAR 1996

Dollars in millions

	Quarterly			
Quarters	Receipts	Outlays	Change in trust fund balance	Balance in trust fund (at end of quarter)
Fiscal year 1991				
Oct-Dec	$19,300	$15,998	$3,302	$98,933
Jan-Mar	20,433	17,270	3,163	102,096
Apr-June	25,313	18,399	6,913	109,009
July-Sept	18,892	17,971	921	109,930
Total	**$83,938**	**$69,638**	**$14,299**	
Fiscal year 1992				
Oct-Dec	$24,201	$19,074	$5,127	$115,057
Jan-Mar	20,134	20,167	(33)	115,024
Apr-June	28,927	21,328	7,598	112,623
July-Sept	19,415	21,405	(1,990)	120,633
Total	**$92,677**	**$81,974**	**$10,703**	
Fiscal year 1993				
Oct-Dec	$25,360	$21,971	$3,389	$124,022
Jan-Mar	20,833	22,134	(1,301)	122,722
Apr-June	29,581	23,982	5,599	128,320
July-Sept	21,327	23,517	(2,190)	126,131
Total	**$97,101**	**$91,604**	**$5,497**	
Fiscal year 1994				
Oct-Dec	$26,446	$24,758	$1,688	$127,818
Jan-Mar	22,047	25,458	(3,411)	124,408
Apr-June	33,155	25,937	7,219	131,626
July-Sept	24,547	26,618	(2,071)	129,555
Total	**$106,195**	**$102,770**	**$3,425**	
Fiscal year 1995				
Oct-Dec	$29,821	$26,533	$3,288	$132,844
Jan-Mar	25,215	28,638	(3,423)	129,420
Apr-June	35,570	30,513	5,057	134,477
July-Sept	24,241	29,199	(4,958)	129,520
Total	**$114,847**	**$114,883**	**($36)**	
Fiscal year 1996				
Oct-Dec	$30,001	$29,253	$747	$130,267

Note: Totals may not add because of rounding.

Sources: Fiscal year 1991-95 data were compiled from monthly reports prepared by HCFA's Office of the Actuary. Fiscal year 1996 data are from the monthly Treasury statement, Dec. 31, 1995.

Chairman ARCHER. Thank you, Ms. Jaggar.

Did you examine the minutes of the December 13 meeting?

Ms. JAGGAR. Mr. Chairman, the minutes of the meeting have not been completed at this time. We have examined the rough notes that were taken by the Chief Actuary, who was tasked with that activity.

Chairman ARCHER. So do those rough notes confirm what Secretary Shalala testified to, that this operating deficit was discussed at that meeting?

Ms. JAGGAR. Yes, sir.

Chairman ARCHER. Thank you very much.

Do any other Members have questions?

Mr. Rangel.

Mr. RANGEL. Yes, thank you.

Thank you, Director Jaggar. We are trying to find out whether or not there was a conspiracy, and if not, whether there was a deliberate coverup of the fact that there was an operating deficit in 1995. And after preparing and reviewing your testimony, do you find any scintilla of coverup by anybody?

Ms. JAGGAR. Mr. Rangel, we found that the Treasury Department in accordance with its routine procedures published the information about the deficit in its October 27 report and that other routinely produced reports were generated and distributed as they normally would be.

In looking at the discussion at the Trustees meeting and in talking to individuals who were in attendance at that meeting, there was no notice or intimation of any attempt not to discuss fully that information; rather, the focus was on assuring that there was clear understanding of the many different factors that might influence the overall health of the Trust Fund and make that public in the Trustees' Report which is due out this spring.

Mr. RANGEL. Historically, the General Accounting Office has never gotten involved in any political issues or any partisan issues but has been a very objective arm of the U.S. Government. I have no reason to believe that that has changed. Do you still maintain that reputation of the GAO that you do not get involved in political or partisan issues?

Ms. JAGGAR. It is certainly our main goal to be objective and to serve the needs of both sides of the Congress with factual information that can be used for the debate, but without political opinions about those facts.

Mr. RANGEL. Thank you so much for your testimony.

Ms. JAGGAR. My pleasure.

Chairman ARCHER. Are there any other questions?

Mr. Shaw.

Mr. SHAW. Mr. Chairman, I would like to just briefly respond to what Mr. Rangel just said, and then I do have a couple of questions.

I do not think anybody here has indicated that there is a conspiracy or a coverup. I think it is a question of whether a duty was performed to report to this Committee. As I am sure every Member on this Committee agrees, we have a very significant duty to the Trust Fund and that the Trustees, the Managing Trustee specifically, the U.S. Treasurer, has a fiduciary relationship to that Trust and a responsibility to report specifically to Congress.

Now, I would like to go back to the question of the meeting and the minutes of the meeting—was it December 13——

Ms. JAGGAR. Yes, sir.

Mr. SHAW [continuing]. That Secretary Shalala indicated and you confirmed in a response to a question by Chairman Archer, that the question of the Trust Fund going into the red, being that more was going out than coming in, was discussed at that meeting.

Ms. JAGGAR. Yes, sir.

Mr. SHAW. Do the notes indicate who discussed it?

Ms. JAGGAR. Briefing documents that were handed out in advance of the meeting so that people would know essentially what the agenda was, indicate that Mr. Vladeck, who is the Administrator of the Health Care Financing Administration, would present the information about the status of the HI Trust Fund. The meeting notes indicate that that is indeed what happened.

Mr. SHAW. Do the notes reflect that the deficit in the Trust Fund was discussed at the meeting?

Ms. JAGGAR. Yes, sir.

Mr. SHAW. Does it indicate who discussed it?

Ms. JAGGAR. Other than Mr. Vladeck presenting the information about the status, the notes that we have seen do not say who asked what questions about it.

Mr. SHAW. What questions were asked?

Ms. JAGGAR. I am aware that a question was asked as to whether or not the causes and factors affecting the more rapid expenditure and higher outlays would be thoroughly explored and presented in the Trustees' Report. And the answer was that, yes, they would be so discussed.

In addition, I should mention that the Trustees routinely have a meeting, their second meeting of every year, before that report is made public, to review the report and discuss the issues that are going into it.

Mr. SHAW. What other matters were discussed at that meeting? Were there other matters discussed at the meeting, other than the status of the Trust Fund?

Ms. JAGGAR. The status of the other Trust Funds, because this is a meeting also for the Social Security Trust Fund, and its status was also discussed.

Mr. SHAW. What other——

Ms. JAGGAR. And in addition—I have the agenda, if you will wait one moment—but in addition, there were new public Trustees who were present at this meeting, and they were introduced and welcomed.

Mr. SHAW. Mr. Chairman, I wonder if we could see the agenda that the witness has referred to.

Chairman ARCHER. Without objection——

Mr. SHAW. Could we look at that, please? Could somebody bring that up and let the Committee see what the witness has in her hand?

Chairman ARCHER. Without objection, it will be inserted in the record.

[The documents follow:]

DEPARTMENT OF HEALTH & HUMAN SERVICES Office of the Secretary

Washington, D.C. 20201

DEC 8 1995

To: The Secretary
Through: DS ______
COS ______
ES ______

From: Acting Assistant Secretary for Planning and Evaluation (Peter Edelman)

Subject: December 13 Meeting of the OASDI, HI, and SMI Boards of Trustees -- BRIEFING

PURPOSE:

To provide information about the board meeting and topics that may be discussed at the meeting of the Federal Old-Age, Survivors, and Disability Insurance (OASDI), Federal Hospital Insurance (HI), and Federal Supplementary Medical Insurance (SMI) Boards of Trustees. To recommend responses to specific issues that may be raised during the meeting.

BACKGROUND

The Boards are comprised of six Trustees: The Secretaries of the Treasury, Labor, and Health and Human Services, the Commissioner of Social Security, plus two Public Trustees. The Secretary of the Treasury is the managing Trustee and presides at the meetings which are held every Spring and Fall. The Principal Deputy Commissioner of Social Security is Secretary to the Board for the OASDI Trust Funds. Since the Principal Deputy Commissioner will be out of town on the date of the meeting, another Deputy will be acting in his place at this meeting. The Administrator of the Health Care Financing Administration (HCFA) is Secretary to the HI and SMI Boards. The primary responsibilities of the Boards relate to management of the trust funds as opposed to direction of general program policies. The main purpose of the Spring meeting is to adopt and to sign the annual reports of each of the trust funds. Members of the Boards are updated on the financial status of the trust funds and on other relevant activities at the Fall Meeting.

The boards will approve the minutes of the April 3, 1995 meeting (Tabs C and D)

Secretary Rubin will introduce the two new Public Trustees to the board during the meeting. Tab B has short biographies of the Trustees.

Page 2 - The Secretary

PRINCIPAL PARTICIPANTS

The Honorable Robert E. Rubin, Secretary of the Treasury (Presiding)
The Honorable Robert B. Reich, Secretary of Labor
Shirley S. Chater, Commissioner of Social Security,
Carolyn Colvin, Deputy Commissioner of Social Security
Bruce C. Vladeck, Administrator, Health Care Financing Administration
Marilyn Moon, Trustee
Stephen G. Kellison, Trustee

In addition to the principal participants, Peter B. Edelman, Acting Assistant Secretary for Planning and Evaluation, Jack Ebeler, Deputy Assistant Secretary for Planning and Evaluation for Health Policy and other DHHS support staff will attend the meeting. Kathleen Buto, the Associate Administrator for Policy, and Richard S. Foster, the Chief Actuary, will accompany Mr. Vladeck. Each ex officio Trustee and the two Secretaries of the Boards will be accompanied by a small number of support staff.

Update of the Financial Status of the Social Security and Medicare Trust funds

Secretary Rubin will call on Ms. Colvin or on Mr. Ballantyne, the Chief Actuary of Social Security, to report on the financial status of the OASDI Trust Funds. SSA's talking points are

- At the end of fiscal year 1995, the combined Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds held total assets of $483.2 billion, representing about 137 percent of estimated outgo in fiscal year 1996.

- During fiscal year 1995, the combined OASI and DI Trust Funds grew by $60.4 billion, which was about $2.5 billion less than was predicted in the 1995 Report of the Board of Trustees.

- Most of the difference from the estimated growth was due to an overestimate of tax income. Although the overestimate was relatively small, less than 0.6 percent, it amounted to $2.1 billion. Income after 1995 will probably continue at a somewhat lower level as well.

- Although tax income to the DI Trust Fund was overestimated by the same percentage as for the combined funds, it was offset by an overestimate in DI benefit payments of the same magnitude, about $0.4 billion. Benefit payments from the DI Trust Fund after 1995 will also probably continue at a somewhat lower level for some time.

- Benefit payments from the OASI Trust Fund in fiscal year 1995 exceeded the estimated amount by only $0.1 billion.

Page 3 - The Secretary

Secretary Rubin will call on Mr. Vladeck to report on the financial status of the HI and SMI Trust Funds. HCFA will report that:

- The HI Trust Fund Balance essentially was unchanged from FY1994 to FY1995 at 129.5-$129.6 billion. There was in fact, however, a $36 million (.03%) decrease instead of an anticipated $5 billion increase. Revenues were a little lower and outlays somewhat higher than was anticipated in the 1995 Report.

- This change is probably sufficient to move the exhaustion date from CY2002 or FY2003 to 2001. Because the projection assumptions have not been finalized, we cannot tell whether the fund will necessarily be exhausted in CY2001.

- The SMI Trust Fund balance is slightly better off than was projected in the 1995 Annual Report. Expenditures have been running about 1.8% lower than projected.

It seems unlikely that any other important issues will arise at the meeting. All the trust funds are in about the same condition as last year. The funding of the SMI Trust Fund has been set through 1996.

Update on Status of 1996 Report Preparation

Preparation of the 1996 Reports is proceeding approximately on schedule.

Update on Activities of the Public Trustees

The public Trustees are developing their own talking points for the meeting. It is not clear what they will be, but they will probably not be controversial.

It was earlier suggested that the Public Trustees might discuss a possible research project focusing on possible physiological causes for the slowdown since 1982 in the improvement in life expectancy for older women. It was thought that the Public Trustees might wish to quantify how much of the gap between life expectancies for men and women has narrowed and to get suggestions from academics about changes in the assumptions for the trust fund projections.

Further, it was thought that they might state their goal of continuing the tradition of the Public Trustees' role in sponsoring and otherwise encouraging research on issues affecting the Social Security and Medicare Trust Funds.

It seems likely still that their statements will be along those lines, but no one knows at this point.

OTHER ITEMS OF BUSINESS

We expect no other business.

TALKING POINTS

Tab A is an annotated agenda. It includes a talking point on the problem of the HI (Part A) Trust Fund and a suggested response to a possible suggestion by the Public Trustees.

Peter B. Edelman

Attachment:

Tab A - Annotated Agenda
Tab B - Bios for the Public Trustees
Tab C - Minutes of the April 3, 1995 Meeting of the OASDI Board of Trustees
Tab D - Minutes of the April 3, 1995 Meeting of the HI-SMI Board of Trustees

Tab A

ANNOTATED TENTATIVE AGENDA FOR THE SECRETARY
BOARDS OF TRUSTEES MEETING
OASDI, HI, AND SMI TRUST FUNDS
ROOM 3327, MAIN TREASURY BUILDING
WEDNESDAY, DECEMBER 13, 1995, 11:00 A. M.

Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund

Board of Trustees of the Federal Hospital Insurance Trust Fund

Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund

1. Approval of the Minutes of April 3, 1995 Meeting

   The minutes for the December Meeting have been reviewed by staff and are acceptable as submitted.

2. Adoption of the Agenda

   The Agenda is acceptable.

3. Update on the Financial Status of the Social Security and Medicare Trust Funds

   a. Presentation on the Old-Age, Survivors, and Disability Insurance (OASDI) Trust Funds.

      Ms. Colvin or Mr. Ballantyne will make the report.

   b: Presentation on the Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) Trust Funds

      Mr. Vladeck will make the report.

      If it seems appropriate for you to comment on the HI (Part A) balance, you might say [redacted]. **This administration is trying to get on top of the problem. The President has outlined a proposal for $124 billion in Medicare savings. This proposal should put the HI Trust Fund in balance through 2011. If Congress accepts the proposal, the Fund should be in good shape for the foreseeable future.**

4. Status of 1996 Report Preparation.

Preparation of the 1996 reports is proceeding according to schedule.

5. Update on Public Trustees Activities

Secretary Rubin will introduce the new Trustees to the rest of the board and will indicate something about their backgrounds.

As you know, Marilyn Moon is a distinguished scholar with a multitude of publications on Medicare and health economics. She has worked at the AARP and at the Congressional Budget Office and currently is a Senior Fellow at the Urban Institute.

Stephen G. Kellison is also a distinguished scholar. He is currently Vice President and Chief Actuary of the Variable Annuity Life Insurance Company in Houston. Mr. Kellison was chairman of the Panel of Technical Experts appointed by the 1991 Advisory Council on Social Security. He has been on the faculty of the University of Nebraska-Lincoln and Georgia State University.

Short biographies are attached in Tab B.

The Public Trustees are developing their own talking points for the meeting. We are not sure of their content, but they will probably not be controversial.

If it seems necessary to provide a response on a possible research project, you might say

Money is tight, but we would be happy for our staffs to take a look at the issue. You might call Mr. Vladeck to set up an appointment for him or for someone on his staff to meet with you and your staff to discuss how we might best work together to get such a project started.

6. Other Items of Business.

There will probably not be any other items of business.

Mr. SHAW. Do the notes indicate that this was a principal matter of discussion at that meeting or an incidental matter of discussion?

Ms. JAGGAR. The entire meeting lasted about 18 minutes, as you have heard today, and according to the notes that we have, it was one matter; it was not the primary matter, and it was not brushed over. It was talked about I would say briefly, given the time constraints—not the principal topic of discussion.

Mr. SHAW. How many matters were referred to in that meeting?

Ms. JAGGAR. Sir, I have that information, and I would like to give it to you later. I have it——

Mr. SHAW. Perhaps you could supply it for the record.

Ms. JAGGAR. Yes, sir, I would be delighted to. What we could do is we could provide the agenda for the meeting, which would provide that information for you, and then a copy of the rough notes that were taken, which would show you that those topics were discussed. They are handwritten notes, and a bit cryptic, as handwritten notes tend to be, but that would show you what was discussed.

Chairman ARCHER. Without objection, that will also be inserted in the record.

Ms. JAGGAR. Thank you.

[The following was subsequently received:]

BOARD OF TRUSTEES MEETING
DECEMBER 13, 1995
LIST OF ATTENDEES

Robert Rubin , Secretary, Dept. of Treasury/Managing Trustee
Dan Sichel, Treasury
Robert Reich , Secretary, Dept. of Labor/Trustee
Marilyn Moon , Urban Institute/Public Trustee
Ms. Meridith Miller, Labor
Robert Gillingham, Treasury
John Hambot, Treasury
Peter Bieger, General Counsel, Treasury
Kathy Buto, Assoc. Administrator for Policy, HCFA
Rick Foster, Chief Actuary, HCFA
Bruce Vladeck, Administrator, HCFA
Carolyn Colvin, Deputy Commissioner for Programs, Policy Evaluations, Communications, SSA
Katherine King, (B. Vladeck's assistant) HCFA
Harry Ballantyne, Chief Actuary, SSA
Brian Coyne, SSA
Mike Andrew, Staff Assistant to Public Trustee, SSA
Judy Hunt, Staff Assistant to Public Trustee, HCFA
Gene Moyer, (advisor to D. Shalala) HHS
Joe Hight, (staffer to R. Reich) Labor
Steve Kellison, Public Trustee
Shirley Chater, Acting Commissioner, SSA
Donna Shalala, Secretary, HHS/Trustee
Steve Goss, Office of the Actuary, SSA
Jack Ebeler, Acting Deputy Assistant Secretary for Planning Evaluation/Health Policy, HHS
Gus Faucher, Treasury

Source: John Hambo~~t~~l, Dept. of Treasury (622-2350)

— 12/13/95 TR meeting

SSA Chief Actuary's Notes

— 11:35 A.M.

Welcomed PT's / Mention Ross + Walker
Minutes approved
Agenda adopted
Status report - OASDI - Carolyn Colvin
" " - Medicare - Bruce Vladek
HI Taxes $1.6 billion lower
benpymts. 3.3 " higher
4.9
1996 TR
schedule - on track
questions - Reich - "Reasons for drop in tax income,
2. Trend in real growth GDP - Goss answer.

— Public Trustees -- activities - Marilyn M.
Steve K.
Mortality improvement
Economic
CPI Indexing
real wage
real interes
Investments
AC
Reaction from PT's
Round table
spring/early summer.

— New bus?
No
Move to adj. 11:56

Source: Harry Ballentine, Chief Actuary, SSA

HCFA Chief Actuary's Notes
Board of Trustees Meeting
12/13/96

✓ Kolbe ✓ Miller ✓ ... ✓ Cogan ✓ Hight
✓ Sickel ✓ Gillingham ✓ Foster ✓ Andrews ✓ Kellison
✓ Reich ✓ Heneghan ✓ Ulrich ✓ Hunt ✓ Chater
✓ Moon ✓ Berger ✓ Colvin ✓ Shelek
✓ King

11:33
Minutes approved
Agenda adopted
OASDI update (CC)
Medicare update (BCV)
- Moon: Basis for change?
- Shelek: True basis for Δ HI?
- Reisch: Overestimate of taxes? NIPA adjust
Status of preparation (HCB)
- Reich: Proj's for GDP, working pop
Pub 7 activities
MM: Public understanding & confidence
Summary
Round table discussions on assump's
SK: Mortality roundtable; male/female shifts -- self understanding
Economic -- no specific plans yet; CPI discussion & interest
TF investment; possible Adv. rec's
Other Business
SSC adjourn 11:50

Source: Rick Foster, Chief Actuary, HCFA/HHS

TRANSCRIPTION OF
Chief ACTUARIES NOTES
AT MEDICARE BOARD OF TRUSTEES MEETING
12/13/95

11:33
Minutes approved
Agenda adopted
OASDI update (CC)
Medicare update (BCV)
- Rubin: Basis for change (in expenditures) [illegible]
- Shalala: True basis for Δ HI (pricing) [illegible] said some
- Reich: Overestimates of taxes? NIPA adjust
Status of preparation (HCB) Ballantine
- Reich projection for GDP, working population
Public trustee activities
MM: public understanding and confidence
Summary (Trustees')
Roundtable discussions on assump's
SK: Mortality roundtable, male/female shift -- seek resolution
Holtom Economic -- no specific plans yet; CPI discussion / interest
TF investments; possible advisory council rec's
Other business (none)
SSC adjourn 11:50

Chairman ARCHER. Are there any——

Mr. STARK. Mr. Chairman.

Chairman ARCHER. Mr. Shaw, are you finished with your inquiry?

Mr. SHAW. Yes, Mr. Chairman.

Chairman ARCHER. Mr. Stark.

Mr. STARK. Thank you, Mr. Chairman.

I just wanted to thank Ms. Jaggar for her testimony. In your investigation of this matter, did you find that the administration or any of the Trustees did anything wrong?

Ms. JAGGAR. We found that the Trustees acted in accordance with the requirements of the legislation regarding reporting information about the status of the Trust Fund.

Mr. STARK. So you didn't find that anybody did anything wrong, did you?

Ms. JAGGAR. Nothing that would be called, I think, legally in question.

Mr. STARK. Yes, OK—illegal—immoral. Do you know if the Trustees' loyalty oaths are all current?

Ms. JAGGAR. I am sorry, I could not hear you.

Mr. STARK. Do you know if the Trustees' loyalty oaths are all current?

Ms. JAGGAR. No, sir, I don't know that.

Mr. STARK. That might be important to know.

Well, Mr. Chairman, I think that the only comment I can make is that—to call this hearing "immature," and "irrelevant" is giving it more kind treatment than it deserves. Fortunately, this is February 29, and if memory serves me right, this kind of silliness can only come up once every 4 years, and I hope that that augurs well that we will not hear any more about it.

If in fact there is any blame, it is the Republican staff. If this was important enough to know, and they were not smart enough to read this report and tell you about it, if it were me, I would get rid of the staff. If the Republicans feel that this is such an almighty important issue——

Chairman ARCHER. Is the gentleman directing a question to the witness?

Mr. STARK. No; I am just finishing my comment on my time, Mr. Chairman——

Chairman ARCHER. Just ruminating.

Mr. STARK [continuing]. And letting you know that I think if anybody is screwed up, it was the Republican staff. Your staff tells me he was here, that he only took 2 days off, so if he did not think it was important and you guys did not act—Mr. Chairman, you have said to the press that you are going to get some of this insurance reform out of here by March, but I have not heard a peep out of the leadership of this Committee about doing anything to save the Trust Fund. And if in fact these things are important, in the 8 years or 10 years that I am aware that the now minority ran the Health Subcommittee, this issue never came up. We met our responsibilities in a timely and bipartisan fashion. We had our hearings, we had markups.

And I would just say that it is a sad day when we can posture like this about saving the Trust Fund, and yet the leadership of this Committee has done nothing to try to save the Trust Fund or protect the senior citizens except a lot of blather in the press and a McCarthy-like hearing.

So I think that a fitting end to this nonsense would be that we do not see it again for 4 years and that sooner or later, the Republicans get around to dealing with the administration's bill, which would extend the Trust Fund for 10 years and do the responsible thing. This is McCarthyism of its worst kind, and I am ashamed to say that it probably lies with the staff—the Republican staff—packed with former insurance company lobbyists, and that is probably why we are going to do insurance company reform in March and not get around to saving the Trust Fund.

I thank Ms. Jaggar for a reasoned explanation, and I think it is just a sad day for the Ways and Means Committee and a sad tribute to what used to be a well-managed Committee.

Chairman ARCHER. Mr. Portman.

Mr. PORTMAN. I thank you, Mr. Chairman.

I did not think it was a sad day. I think it was an interesting day. I learned a lot, and I think it was a helpful exchange between the Committee and the two witnesses.

I was not going to talk about this, but Mr. Rangel talks about us alleging a coverup; now Mr. Stark talks about a McCarthy-like hearing and that we are alleging some illegality. I did not hear any of that, and I was here for 95 percent of the hearing today. So it is interesting hearing allegations about what we are alleging, but that is not why I was here, and that is not what I heard today.

Ms. Jaggar, just briefly, I enjoyed your testimony, and you talked a little about the projections, you talked a little about why, perhaps, the projections were off. I think you summarized well what we heard earlier today about the possibility of some payments being requested sooner and so on.

I wonder if you could respond to an additional question as to the projections. You indicated that in the first quarter of this fiscal year, there might have been a surplus, although we had the deficit in the last year. You may have not been here when Mr. Thomas had a chart which showed the trend lines. The trend lines are very disturbing because they indicate, as would conventional wisdom, that we are going to continue to go into a deficit position and that perhaps the Trust Fund will be bankrupt by the year 2000, rather than 2002 or 2001.

Have you looked into that from a GAO perspective as to what this short-term projection means for the long term, and whether you think these trends will continue?

Ms. JAGGAR. Mr. Portman, we have not tried to do a thorough analysis, I believe that would duplicate the efforts of the HCFA Actuary, who has access to much of the information that is needed and also, in doing the final analyses, uses information and data from Department of Labor and other economic indicators.

However, appendix II of my statement—perhaps you have it there—is a chart which shows what the change in the Trust Fund balance has been over the past several years. Indeed, in the next-to-the-right column, if I might impose upon you to look at that, what you can see is that at the end of the first quarter of fiscal year 1996—the October through December quarter—there is a

$747 million balance in the Trust Fund. And if you look at comparable first quarters in the previous 5 years, balances were always in the billions, not the millions.

Mr. PORTMAN. Right.

Ms. JAGGAR. So it is clear that everyone agrees the Trust Fund is running out of money, and this is something that is of grave concern.

Mr. PORTMAN. So what you can tell from both the historical data and the $747 million figure as compared to the $3 billion, $1 billion, $1.6 billion and so on in previous first quarters, it looks as though the deficit trend will continue and at a rate which could perhaps lead to the long-term projection being pushed back to the year 2000 or some other earlier date?

Ms. JAGGAR. There are many other factors to consider to determine where those estimates finally will come out when the Trustees' Report is issued this spring, but surely there is nothing at this point, from looking at this data, that indicates it is going to be a rosier scenario——

Mr. PORTMAN. Than projected.

Ms. JAGGAR [continuing]. Than projected.

Mr. PORTMAN. I thank you, Director Jaggar.

Chairman ARCHER. Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Ms. Jaggar, can you tell me how much this investigation costs, how much you have spent on this?

Ms. JAGGAR. Mr. McDermott, to date we have spent about 35 staff-days doing this, which is probably around $20,000 of time as GAO calculates it.

Mr. MCDERMOTT. I read in your report that 2,400 of these Treasury reports went out all over Washington, DC. I assume that is the basic mailing list for those reports. Is that correct?

Ms. JAGGAR. Yes, sir. The mailing list that the Department of Treasury uses, to be precise, sends out 2,439 reports to various addressees around Washington and also to other countries.

Mr. MCDERMOTT. And are Members of Congress on that list?

Ms. JAGGAR. Yes, sir.

Mr. MCDERMOTT. And are Committee staff on that list?

Ms. JAGGAR. Yes, sir.

Mr. MCDERMOTT. So this was something that was widely distributed here on the Hill. From looking at the report and from your background in health finance examinations, can you offer us an opinion as to why no one seemed to take this seriously when they received the information in the mail, why it did not rise to the level of the furor that we are seeing here today?

Ms. JAGGAR. I think that several groups of people did take it seriously: That the Congressional Budget Office worked with those numbers in revising their budget estimates for subsequent years in their December update, as has been discussed here.

Several attendees at the Medicare Trustees' meeting indicated to us that while they did take the numbers seriously, they felt that a thorough analysis of all the factors that needed to be considered before the revised projections were put out would be forthcoming, and would be timely.

Mr. MCDERMOTT. Do you think that that was a prudent judgment on their part that, given your background in analyzing health care issues, they took it seriously but felt that it was not something that they had to shoot up red flares in the sky about?

Ms. JAGGAR. With respect, I would decline to say whether it was prudent judgment on their part. Several of them are political appointees and involved in many complicated issues in relations with Congress. But we detected nothing that would indicate that they were, for political reasons, trying to hide information.

Mr. MCDERMOTT. Did you do any examination in your inquiry about why the relevant Subcommittees, for example, of the Ways and Means Committee, like the Oversight Committee, did not call a hearing once they had received the report and read it? Did you look into that at all?

Ms. JAGGAR. No, sir, we did not.

Mr. MCDERMOTT. You were not tasked to do that, or were you told not to do that?

Ms. JAGGAR. We were not tasked to do that. It did not come up as an issue.

Mr. MCDERMOTT. And so you made the assumption that they all read it, is that correct, that it was read by the people who would have the responsibility on this Committee?

Ms. JAGGAR. Sir, I have no information about whether anyone on this Committee, the Budget Committee, or any of the other Committees that received it, read the material or noticed it.

Mr. MCDERMOTT. Well, you did find out—or at least we know now in this hearing—that Senator Domenici read it, or his staff read it, and commented that it was not a serious problem.

Ms. JAGGAR. Yes.

Mr. MCDERMOTT. So you would assume that it was done in the House, wouldn't you?

Ms. JAGGAR. I am not sure of the timing of Senator Domenici's piece. It may well have been after the news release that brought it to people's attention.

Mr. MCDERMOTT. I see. So he may not have read it, either, until then; is that what you are saying?

Ms. JAGGAR. I really don't have any information about whether it was read by others. We do know that the American Association of Actuaries read it and incorporated it into their report, as did the Congressional Budget Office.

Mr. MCDERMOTT. So that, really, you do not know what happened up here on the Hill; you just know that the report was sent out.

Ms. JAGGAR. Yes, sir.

Mr. MCDERMOTT. And the closing down of the government, do you think that played any part—we were closed down approximately from November 16 to 19, when the Republicans thought the government made no difference—that the shutdown did not interfere in the processing of this information?

Ms. JAGGAR. To the best of our knowledge, it did not interfere in the processing of the information. The possible impact of the furloughs may be felt this spring as the Department of Labor and other departments provide input to the HCFA Actuary for reassessing the status of the Medicare Trust Fund as part of the Medicare Trustees' Report.

Mr. McDERMOTT. Thank you very much for your report.

Mr. LAUGHLIN [presiding]. The time of the gentleman has expired.

Mr. English may inquire.

Mr. ENGLISH. Thank you, Ms. Jaggar. I appreciate your testimony, and if we could, I would like to walk through a couple of elements of it.

My understanding from your testimony is that you have examined the relevant documents as you were tasked to do and that you have discovered that indeed, in late October, it became apparent that the Part A Trust Fund was running not a surplus for the last year as expected, but actually was running a deficit; is that correct?

Ms. JAGGAR. That is correct.

Mr. ENGLISH. And that shortly thereafter, that information became available to the individual Trustees and that that included the two Cabinet members who testified today?

Ms. JAGGAR. Yes, sir—if "shortly thereafter" is December when they became aware of it.

Mr. ENGLISH. December.

Ms. JAGGAR. Right.

Mr. ENGLISH. And then, at a meeting which both of the Cabinet members as Trustees attended and which Mr. Rubin presided over, this matter was discussed.

Ms. JAGGAR. Yes, sir.

Mr. ENGLISH. And that there was a report mailed out, which I believe we have copies of here, which included, buried in a mountain of data, a reference to the fact that part A was currently running a deficit. Have you examined that report?

Ms. JAGGAR. Yes, sir.

Mr. ENGLISH. Did you see anything that in any way highlighted that figure or called attention to it?

Ms. JAGGAR. I think that it is important to recognize that that report is normally the focus of people who, if you will allow me to call them technical individuals, actuaries and the like, who read numbers frequently——

Mr. ENGLISH. Right.

Ms. JAGGAR [continuing]. And there is a reference in the material to the variation in outlays. I don't know whether a technical person would consider that highlighting it or not.

Mr. ENGLISH. I used to be the executive director of our State Senate Finance Committee for the minority, so I used to receive reports like this on a regular basis from various departments of State government, and we were virtually awash in them, and I imagine you have to be familiar with how many reports come into legislative offices, that certainly, this was one of many, many reports that came in.

Ms. JAGGAR. Right. There was not a special notice that was made——

Mr. ENGLISH. There was no special notice, and it was simply a technical report that included that detail buried in it.

Ms. JAGGAR. That is how I would characterize it.

Mr. ENGLISH. Is that a fair characterization?

Ms. JAGGAR. That is how I would characterize it.

Mr. ENGLISH. And you have received nothing—you have become aware of nothing in your limited investigation that suggests there was any effort made by either of the Cabinet Secretaries to subsequently call public attention to this, a fact which obviously was coming to the fore at a time when Medicare reform was being vigorously debated, at a time when it had become a very partisan issue, and at a time at which obviously this information was extremely inconvenient to one side—you have not seen any evidence of an effort by any of the Trustees to bring this issue to the attention of the public, have you?

Ms. JAGGAR. Mr. English, we found nothing that would suggest that anyone tried to hide it, and we have found nothing that suggests that anyone tried to highlight it.

Mr. ENGLISH. I appreciate your bringing that up.

Do you have any recommendations for changing the statute that spells out the responsibilities of the Trustees to maybe clarify a responsibility, a fiduciary responsibility, to call attention to these sorts of public issues? Have you explored any ways of strengthening the statute that governs the role of the Trustees?

Ms. JAGGAR. We have noted that the statute requires the Trustees at this point to identify and notify Congress when the Trust Fund is "unduly small"; and there also is, in a separate but related section——

Mr. ENGLISH. But it does not specify "unduly small," does it?

Ms. JAGGAR. A separate, related section requires notification when the balance ratio is below 20 percent. And the Trustees have done that when they completed their annual projections. This was an interim projection, and it is being considered in making the overall projections for the Trustees' Report.

Mr. ENGLISH. I understand. I think what you have done here is testify to the fact that the legal forms strictly understood were followed, although I will say there are other statutes governing other Trustees that are much stronger and would require a Trustee to bring this very much to the attention of the public and to everyone who is a stakeholder.

I want to thank you for the professionalism of your testimony today.

Mr. LAUGHLIN. The time of the gentleman has expired.

The gentleman from Georgia is recognized.

Mr. LEWIS. Thank you, Mr. Chairman, and I will be very brief.

Ms. Jaggar, I know you have been here for a long time, but let me just ask you—you have limited resources as Director of this section of GAO.

Ms. JAGGAR. Yes, sir.

Mr. LEWIS. And do you think it is fitting and appropriate to use your limited resources to engage in this type of inquisition?

Ms. JAGGAR. Mr. Lewis, we respond to the requests of Members, of Committee Chairmen and Subcommittee Chairmen, both minority and majority parties, and when it is possible, we respond to the needs that they have to the best of our capability. In this case, we were requested, and we were able, to provide assistance.

Mr. LEWIS. Ms. Jaggar, were you asked to examine the personal calendars for the month of December of the Secretary for Health and Human Services and the Secretary of the Treasury?

Ms. JAGGAR. We were asked to identify whether those individuals had—I should say verify—whether those individuals had participated in meetings to discuss budget negotiations subsequent to having been informed about the status of the Trust Fund, and we did do that.

Mr. LEWIS. So did anyone on your staff examine all of the calendars for the month of December of the two Secretaries?

Ms. JAGGAR. We contacted the "handlers," if you will——

Mr. LEWIS. The schedulers?

Ms. JAGGAR. The schedulers—the schedulers of each of the three Secretaries because Secretary Reich is also a Trustee member and was in attendance at the meeting. We obtained the calendars—in some cases, not the full calendar, but the relevant portions of the calendar that would show whether the Secretaries also had participated in the budget negotiations subsequent to the Trustees meeting.

Mr. LEWIS. Ms. Jaggar, I know you are carrying out your job and your duty, your responsibility, but it just seems so strange to me, that it would be a better use of the limited resources of GAO to try to find a way to strengthen and protect Medicare, maybe to look at some of the abuses, fraud and waste. But I appreciate your testimony.

Ms. JAGGAR. Thank you, sir.

Mr. LAUGHLIN. OK. That concludes the hearing. I thank the witness for being with us, and we stand adjourned.

[Whereupon, at 1:20 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

AMERICAN ACADEMY *of* ACTUARIES

February 29, 1996

The Honorable Bill Archer
United States House of Representatives
Washington, DC 20515

Dear Chairman Archer:

The American Academy of Actuaries Social Insurance Committee requests that this letter be submitted for the record on today's full committee hearing regarding the financial condition of the Medicare Hospital Insurance (HI) Trust Fund.

As you know, data reported by the Health Care Financing Administration (HCFA) indicate that the HI Trust Fund experienced a deficit in fiscal year 1995. **The Academy believes the data further underscore the need for Congress to act now to bring the HI program into long-range actuarial balance.** The HCFA data state that in 1995, actual expenditures from the HI Trust Fund exceeded income to the Trust Fund by $.036 billion. In contrast, Medicare trustees in their April 1995 report projected that the Trust Fund would run a $4.7 billion surplus in 1995. HCFA reported that actual Trust Fund income was $1.4 billion (1.2%) less than projected, while actual expenditures were $3.4 billion (3.1%) greater than projected in 1995.

This shortfall raises questions as to whether the Trust Fund will be depleted before 2002, the year trustees projected in the 1995 report. Although we cannot yet determine whether the 1995 shortfall will have a substantial effect on the HI program's long-term actuarial balance, we believe that the fact that the HI Trust Fund contains almost $5 billion less in assets than projected, and ran a deficit in 1995 (a year earlier than anticipated), should serve as a warning that the HI program's financial problems need to be addressed sooner rather than later. Delay will limit the options for change and require such changes to be more extreme. The Academy has evaluated potential solutions to the Medicare program's financial problems in a recently released monograph, "Solutions to Social Security's and Medicare's Financial Problems."

The Academy is a national organization that represents actuaries of all specialties and serves as the profession's public policy voice. It is a primary source of actuarial analysis for policy makers. We look forward to the opportunity to provide the committee with such analysis on this important issue. Please contact Christine Cassidy, Assistant Director of Public Policy, if we can be of assistance.

Sincerely,
Jerry Bogart

Jerry Bogart, FSA, MAAA
Chairperson
Social Insurance Committee

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Statement
of the
American Hospital Association
before the
Committee on Ways and Means
of the
U.S. House of Representatives
on
The Financial Condition of the Federal Hospital Insurance Trust Fund

February 29, 1996

The American Hospital Association, representing 5,000 hospitals, health care systems, networks and other providers of care, is pleased to submit a statement for the record on the issue of improving the long-term future of Medicare and the Hospital Insurance Trust Fund (HI Trust Fund, or Medicare Part A).

America's hospitals and health systems are at the forefront of change in the way health care is being delivered. In communities across the country, hospitals and health systems are creating new and better ways to provide high-quality health care. They are forming partnerships and creating integrated systems of care that are designed not just to treat illness and injury, but also to make the communities they serve healthier.

This is happening partly in response to market changes, but also because hospitals and health systems share a vision of a society of healthy communities, where all individuals reach their highest potential for health. This vision cannot be achieved without a strong Medicare program. As more and more Americans reach retirement age, and as the population in general ages, it is becoming clear that this nation simply cannot afford to let the Medicare program become financially weakened.

Unfortunately, Medicare's Hospital Insurance Trust Fund is becoming more and more fragile. The number of Medicare enrollees is increasing exponentially. When Medicare became law in 1965, 19.1 million people were covered; today the figure is closer to 38 million, a number that is expected to swell to more than 40 million by the year 2000. It is estimated that the average one-earner couple turning 65 last year will use an estimated $126,700 more in Medicare benefits than they paid during their working years in payroll taxes and premiums. In just 15 years, the nation's baby boomers will begin turning 65. And not too long after that, there will be only two workers supporting each enrollee, instead of the four workers supporting each enrollee today.

All of these facts are contributing to the HI trust fund's weakening condition. Last April, the trust fund's board of trustees reported that the fund will be insolvent by 2002 -- just six years from now. The board also reported that program costs are expected to far exceed revenues over a 75-year long-range period under any set of circumstances.

But Medicare is a contract with America's seniors, and the trust fund is the financial backing that keeps the Medicare contract from becoming an unfulfilled promise. Something must be done to fulfill that contract for generations to come -- not just for a short-term political fix.

An Independent Commission on Medicare
Clearly, we must be thinking now about the long-term future of Medicare. While Congress must be held ultimately accountable, an independent commission on Medicare could provide Congress an important level of public trust and debate. The American people have a right to know that what the nation spends on Medicare is buying the best benefits and the most efficient care. They should be confident that federal budget pressures will not entirely dictate how health services are provided for older Americans now, five years from now, or 30 years from now.

An independent commission can do this job, and put the "trust" back in the trust fund. The commission would annually assess how much money is needed to maintain the commitments it establishes. Then, Congress would set a target -- through its regular budget resolution -- for how much it wants to spend on Medicare. The commission would hold public hearings, translate the congressional budget target into recommendations for a benefit package and provider payment rates, and present Congress with its recommendations -- which would then be voted up or down as a package.

We believe a bipartisan commission on Medicare should be permanent, with a life expectancy beyond the current crisis. Otherwise, older Americans will continue to be caught in the political crossfire obscuring the real issue: how to provide quality, cost-effective health care to a growing number of people. Creating an independent commission does not mean that we will not constrain growth; it means we will do it rationally and publicly.

We also believe that the independent commission should govern a single Medicare Trust Fund, in which the HI Trust Fund (Medicare Part A) -- which covers inpatient hospital services -- and Medicare Part B -- which, with premiums and general revenues, funds physician, ambulatory and other services -- are combined.

Capitated payments and approaches that "bundle" Part A and Part B services are erasing the distinctions between Medicare Parts A and B. Today, the HI Trust Fund finances a variety of services that occur outside the hospital, such as skilled nursing, home health and hospice care. In fact, these services are the fastest growing portion of Medicare spending. At the same time, hospitals are reimbursed for a variety of services provided under Part B, such as outpatient, clinical laboratory and physician care.

Medicare is composed of both Parts A and B, and we believe it is time for them both to be considered as one program under the aegis of an independent commission.

Legislative proposals for an independent commission on Medicare
We appreciate the willingness of many in Congress to consider the creation of an independent commission. Most notably, we support the Commission to Save Medicare Act of 1995 (HR 2152), which was proposed last year by Rep. Phil English (R-PA). His bill was an important tangible step toward the much-needed long-term restructuring of the Medicare program. It would create a mechanism to balance Medicare benefits with available federal financing, and remove Medicare spending decisions from the federal budget process, where sound health care policy often takes a back seat to political expediency.

Rep. English's proposal would create a commission of seven members, chosen in a bi-partisan manner, appointed by the President, and subject to Senate confirmation. These members would serve full-time, and be nationally recognized experts in health care. The commission would report annually to Congress and the President on the per capita value of services delivered through the Medicare benefits package, and the projected growth in program expenditures. Each April, Congress would set a target for Medicare spending for the upcoming year, taking into account the amount of revenue collected through payroll taxes, enrollee premiums and transfers from general revenue. In July, the commission would recommend specific changes in the program to bring spending within the budget target set by Congress the previous April.

A similar concept for an independent commission has also been proposed by the conservative House Democrats who make up the Coalition -- also known as the Blue Dogs. In its balanced budget proposal, the Coalition calls for an independent commission to help Congress make the tough choices on Medicare for the next 30 years. The commission outlined in the Coalition plan is also a full-time, bipartisan working group that could make Medicare less of a political football.

The Coalition would create a permanent Medicare Reform Commission to examine how Medicare has met budgetary and program goals. The commission would report periodically to Congress on the status of traditional Medicare, and on any new Medicare payment options that may be adopted, such as Medicare Choice. If budgetary or program goals are not met, the President could make specific legislative recommendations that would be approved by Congress through a fast-track process.

Both H.R. 2152 and the Coalition bill are sound proposals that can help bring more logical and reasoned decision making to the Medicare funding process. We commend those involved for recognizing that Medicare funding decisions must be made outside of the political arena. And we are gratified that, during the debate over how to balance the federal budget, the idea of a bipartisan Medicare commission has attracted more and more attention.

It is also important to note that Rep. Cliff Stearns (R-FL) has proposed a commission with a shorter-term focus. And Senate Majority Leader Robert Dole was quoted during the budget debate as saying "the best solution is a bipartisan" approach. We look forward to working with these members and others to create a bipartisan, independent commission that will address the long-term problems of Medicare funding.

Conclusion

The issues we are addressing here are not just political issues -- they are people issues. The decisions that Congress makes about Medicare will affect almost every American: the 38 million people who rely on Medicare benefits for their health care; the families of those beneficiaries; the millions of baby-boomers who are edging closer to retirement; the young workers who are paying into the system and rightfully expect Medicare to be there for them when they grow older and retire; and all our citizens who receive care from hospitals and health systems that could be adversely affected if change is achieved simply by the traditional and irrational method of ratcheting down provider payments.

America's hospitals and health systems are proud of the high-quality health care they have provided Medicare beneficiaries over the first 30 years of the program. We look forward to providing high-quality care in an even better delivery system for the next 30 years and beyond. We believe strongly that, by creating an independent commission on Medicare, we can achieve that goal.

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