FINANCIAL CONDITION OF THE MEDICARE PROGRAM

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

JUNE 6, 1996

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FINANCIAL CONDITION OF THE MEDICARE PROGRAM

THURSDAY, JUNE 6, 1996

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

The Committee met, pursuant to notice, at 9:38 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
May 30, 1996
No. FC-17

CONTACT: (202) 225-1721

Archer Announces Hearing on Financial Condition of the Medicare Program

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 most recent findings of the Trustee's Report on the current financial condition of the Medicare program, with particular focus on the Federal Hospital Insurance Trust Fund (HI Trust Fund). **The hearing will take place on Thursday, June 6, 1996, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m.**

The Committee will receive testimony from the Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

BACKGROUND:

The payroll taxes paid by working Americans and employers into the 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.

In the first two calendar quarters of the current fiscal year, the HI Trust Fund spent more for Part A benefits than it received in income. Further, the Congressional Budget Office (CBO) has testified that their most recent HI Trust Fund projections suggest that the fund may become insolvent as early as 2001, even sooner than had been projected in the 1995 Report of the Trustees of the HI Trust Fund.

The timing and magnitude of these deficits in the entitlement portion of the Medicare program are of the gravest concern to the Members of the Committee because there is no legal or fiscal basis under which benefit payments could be made if the fund became insolvent and there were insufficient revenues to cover hospital and other health care bills. For instance, the CBO testified that under their baseline economic and demographic assumptions, the amount of spending reductions, or increased revenues, that would be required just to close the looming deficit and achieve a positive HI Trust Fund balance in 2006 would be over $370 billion. The HI Trust Fund would still then go into rapid bankruptcy unless substantial and sustained longer-term corrective steps are taken.

"The Ways and Means Committee considers preservation of the Medicare program for current and future beneficiaries to be a sacred public trust. I am very concerned about the findings of the Trustees with respect to their judgements about the future solvency of the Medicare program," Archer said.

FOCUS:

This hearing will review the 1996 Report of the Trustees on the financial status of the Medicare program, with particular focus on the financial status of the HI Trust Fund.

(MORE)

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, June 20, 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.

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. If we can get our guests to take their seats, the Committee will begin, and we might suggest that the Members do as well.

Madam Secretary and Mr. Secretary, welcome, and thank you for coming this morning. This is an important time, I think, for this country because yesterday, as trustees, you released the 1996 report on Medicare, and I, for one, hope we can begin a new partnership to save Medicare from bankruptcy, the moment of which is accelerating as time goes by and even as we sit here.

I think all of us should agree on this. Saving Medicare should not be a partisan issue. This is an election year, and there is going to be a temptation to move toward partisanship on the part of many people in this city, but this is really an American issue, and it spans generations. It is not just the question of do we save Medicare for the current senior citizens, but can we feel confident that it is going to be intergenerationally fair.

So I hope that the time has come for us to join together to do what is best for the Nation and not what is best for our respective reelection campaigns.

Yesterday's report, unfortunately, confirms that Medicare is going broke faster than projected, and its decline is accelerating at a rate worse than the trustees' estimates only last year.

When you were before us last year and we talked about this, the trustees had predicted that Medicare would have a surplus of $5 billion in fiscal year 2002. Now your report says that Medicare will have a deficit of $101 billion in that year, and I would say a 1-year deterioration of an incredible $106 billion.

Your projections that you base your outlook on are the intermediate projections, and I think it is important for us to note that the actuaries always give an optimistic projection, an intermediate projection, a pessimistic projection, and then sometimes a worst-case projection.

Your report is based on the intermediate projection. On that projection, the trustees now think Medicare will go broke in the year 2001, but they were wrong last year, and we have no guarantee that they are not wrong this year, too. In fact, the trustees' more likely pessimistic projection states that 1999 will be Medicare's last year if we don't do something, and that is just 3 years away, 1999.

It is also interesting to note that as it was true last year in your report that when you read what the actuaries said, it is that it was more likely that it would deteriorate faster than less likely that it would deteriorate faster than the intermediate report. They say that again this year.

So, if we have to err, we ought to err on the side of caution and safety of the fund and not assume that the intermediate projections are going to be the ones that are accurate, as they were not accurate last year.

Alarm bells should be going off across America, and this report really, I believe, validates what we have been saying all along.

I don't think we should be silent. I think we must not do what politicians and previous Congresses have done for decades. We must not tell people that everything is fine and then wait until a crisis to act.

We did not come here today to engage in politics as usual, and we didn't come here to sell out our constituents just for the sake of the next election. I believe both parties, there are surrogates, and all politicians need to put politics aside and do what is in the Nation's best interest to save Medicare.

I would hope that there will be no more ads, no more demagoguery, no more Medicare scare tactics, and that partisan politics will take a holiday for the rest of this year.

So I call on all of us, including President Clinton, to do two things. I hope President Clinton, through both of you, and both of you will be major players in this, will update his existing Medicare proposal to reflect the deepening Medicare crisis. What was proposed last year is not good today. The conditions are different today, the baseline is different, the projections are different, and the crisis is deepening.

The President should show his leadership on Medicare by offering a new bill that avoids shell games and tax increases and gimmicks.

Number two, I call on the President to see that senior citizens are told the truth. Senior citizens deserve to know the truth.

I call on President Clinton to mail a copy of the trustees' report to every single senior citizen so that they can read it for themselves and not have it translated through any of us or translated through the media, and I will tell you, senior citizens do read.

Ms. Secretary, I trust you agree that senior citizens deserve to know the truth, and if so, I trust that you will send them a copy of this report.

Once again, I call for a new era of partnership, not partisanship, to save Medicare. Enough of the attacks, enough of the allegations about cuts that are really spending increases, enough of the meanness and pettiness that is too often associated with Washington. I believe that is what the American people expect from us, and I hope that we won't let them down.

Let me say to all of the Members of the Committee, as usual, any written statements, opening statements on the part of Members, without objection, will be inserted in the record.

[The opening statements follow:]

Opening Statement by Chairman Archer
Hearing on the 1996 Medicare Trust Fund
June 6, 1996

Good morning Madame Secretary and Mr. Secretary. Thank you for coming.

Yesterday, you released the 1996 report of the Medicare Board of Trustees. Today, I hope we can begin a new partnership to save Medicare from bankruptcy. Saving Medicare should not be a partisan issue. It should be an American issue. The time has come for us to join together to do what's best for our nation - not what's best for our respective re-election campaigns.

Yesterday's report sadly confirms that Medicare is going broke faster than projected and its decline is accelerating at a rate far worse than the Trustee's estimated only last year. In 1995, the Trustees predicted Medicare would have a ***surplus*** of $5 billion in fiscal year 2002; they now report that Medicare will have a ***deficit*** of $101 billion that year. That's a one-year deterioration of an incredible $106 billion.

Under their intermediate projection, the Trustees now think Medicare will go broke in 2001, but they were wrong last year and we have no guarantee that they're not wrong this year too. In fact, the trustees' more likely pessimistic projection states that 1999 will be Medicare's last year. That's just three years away! 1999!

Alarm bells should be going off across America. This report validates what we have been saying all along.

We cannot remain silent and we must not do what politicians have done for decades. We must not tell people that everything is fine and then wait until a crisis to act. We did not come here to engage in politics as usual, and we didn't come here to sell out our constituents just for the sake of the next election.

I believe both political parties, their surrogates, and all politicians need to put politics aside and do what's in the nation's best interest to save Medicare. No more ads. No more demagoguery. No more Medascare tactics. Partisan politics must take a holiday.

Today, I call on President Clinton to do two things. One - He should update his existing Medicare proposal to reflect the deepening Medicare crisis. The President should show leadership on Medicare by offering a new bill that avoids shellgames and tax increases. Two - Senior citizens deserve to know the truth. I call on President Clinton to mail a copy of the Trustee report to every single senior citizen so they can read it for themselves. Mr. Secretary, I trust you agree that seniors deserve to know the truth. If you do, you'll mail them this report.

Once again, I call for a new era of partnership, not partisanship, to save Medicare. Enough of the attacks. Enough of the allegations about cuts that are in reality spending increases. Enough of the meanness and the pettiness that is too often associated with Washington.

That's what the American people expect from us and I hope we won't let them down.

STATEMENT OF THE HONORABLE JIM RAMSTAD
WAYS AND MEANS COMMITTEE
June 6, 1996

HEARING ON THE 1996 MEDICARE ANNUAL REPORTS

Mr. Chairman, I commend your leadership in calling this important hearing promptly after the release of the 1996 Annual Report on the financial status of the Medicare program.

I appreciate the opportunity to review this critical issue this morning with Secretaries Shalala and Rubin. We have the responsibility and a rare second opportunity -- after President Clinton's veto of our legislation to preserve and strengthen Medicare -- to respond in a bipartisan way to the ever growing fiscal crisis facing Medicare.

All of us in this room are extremely concerned about both the short- and long-term health and fiscal well-being of the Medicare program. For months, reports from the Treasury Department, the Congressional Budget Office [CBO] and others have predicted the worsening financial health of the Medicare Hospital Insurance Trust Fund.

Yesterday, the bipartisan Social Security and Medicare Board of Trustee Reports confirmed these earlier predictions and our worse expectations -- Medicare, which 37 million older Americans count on for their health care services, is on a collision course with bankruptcy by 2001.

While yesterday's news is not surprising, it serves as a call to action. Unless we get control of Medicare spending and reform current operations now, the fiscal condition will only continue to deteriorate, and the prescription to cure this diagnosis will only become more difficult if action is delayed.

The Trustee Reports indicate that current Medicare beneficiaries on average have only approximately five years left to receive Hospital Insurance benefits and services before the trust fund evaporates. The report is equally alarming for the "Baby Boom" generation and younger people who are paying substantial payroll taxes into a program for benefits they may never receive.

Mr. Chairman, I welcome the conversation we will begin today with Secretaries Shalala and Rubin. I look forward to hearing policy options they recommend to put Medicare on the path to good health as well as preventative measures to assure the long-term solvency, integrity and stability of the program for future beneficiaries.

Again, Mr. Chairman, thank you for your leadership in calling today's hearing. I look forward to working with you, Representative Thomas and the Administration in a direct and forthright manner to restore fiscal health to our Medicare program for today and tomorrow's beneficiaries.

JON CHRISTENSEN
2D DISTRICT, NEBRASKA

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Congress of the United States
House of Representatives
Washington, DC 20515–2702

OPENING STATEMENT
BY
REP. JON CHRISTENSEN

Before the
Committee on Way and Means
June 6, 1996

Medicare is going broke.

Yesterday the Board of Trustees for Medicare -- which includes Clinton-appointees Secretary of Treasury Robert Rubin, Secretary of Labor Robert Reich, and Secretary of HHS Donna Shalala -- issued its 1996 report. The latest Trustees Report confirms what many of us have been saying for quite some time -- that Medicare is going broke even faster than predicted. The Medicare trust fund lost money last year for the first time since 1972, causing the Trustees to declare that Medicare will be ***completely bankrupt by the year 2001***.

That's just five years away!

Last year this Committee crafted legislation that would have protected and preserved Medicare for this generation and the next. It would have saved Medicare by giving our senior citizens more choices for better quality health care. It would have saved Medicare by *increasing* the amount spent per beneficiary each and every year. It even included the creation of a bipartisan commission to solve Medicare's long-term problems. Yet President Clinton chose politics over principle and vetoed this legislation.

I refuse to allow Medicare go bankrupt because some see political advantage in understating its problems. I invite my Democrat colleagues to join us in our efforts to protect and preserve Medicare. Let's work together in a bipartisan fashion to save Medicare without gimmicks and without tax increases.

As President John F. Kennedy once wrote, "We, the people, are the boss, and we will get the kind of political leadership . . . that we demand and deserve." It's time for President Clinton, congressional Democrats, and big labor bosses to put politics aside, to quit demagoging, to stop scaring seniors, and to give us the leadership the American people demand and deserve.

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Chairman ARCHER. I recognize Mr. Stark for an opening statement.

Mr. STARK. Thank you, Mr. Chairman.

Before we start, I would just like to say that one of the reasons we are here today debating in this democracy is because 52 years ago this morning, young men like our absent Ranking Member, Mr. Gibbons, helped to save the world for all of us and make Milwaukee famous by jumping behind the lines at D-day carrying two bottles of Schlitz. Sam is not here, but it was a very important day in his life and for the country.

Then, I would like to go on to say that this is the fourth hearing we have had on the part A trust fund running out of money in 5 or 6 years, and I am not sure there is any news here. I feel like I am in the movie, "Groundhog Day."

For the fourth time, we Democrats are saying stop the hearings and let us vote to approve the $124 billion in Medicare cuts proposed by the President, which will extend the life of the trust fund into the middle of the next decade, and I presume about the same length of time, give or take a month or two, that the Republican bill would extend it.

If it is merely a question of you wanting that $124 billion adjusted to the current baseline, I am sure that the President and the Cabinet would find a way to do that. But unlike your proposals, the President does not make radical changes in traditional Medicare, and I think if those were left out, the President might find a way to have no tax increases if you would drop the tax cuts, which are about eight times as big as his tax increases.

The Republican proposal shifts tens of billions of dollars in costs onto the seniors by allowing doctors and hospitals to charge extra for a basic Medicare package.

Republican proposals weaken the antifraud laws. They spend extra billions on medical savings accounts for the wealthiest and healthiest seniors. They make life-threatening cuts in the safety net and academic research hospitals. Your proposals cap total spending on Medicare regardless of inflation or oil crisis or epidemics. It is a mindless cap that could destroy the program, which might, of course, be what people say that Speaker Gingrich has wanted to do.

The dollar difference between us is not great. It is your additional policies which radically threaten Medicare that we oppose.

So, if you really want a simple extension of the life of the trust fund, sit down with the President, let us pass his cuts in the neighborhood of $124 billion, but for the peace of mind of the Nation's disabled and seniors, stop proposing radical restructuring and cost shifting onto the seniors.

I guess, finally, Mr. Chairman, please stop trying to scare the seniors. Twenty-five times, the trustees have told us that at some date in the near future, Medicare would run out of money, and we have before, always on a bipartisan basis, done what was necessary to keep the program functioning. We will again.

No one ever made a big deal of these trustees' reports before last year, and that was the year you proposed $270 billion in cuts in Medicare, none of it going back into the trust fund, all going to help pay for $245 billion in tax cuts. You then used the trustees'

report to cry the sky is falling. It became the big excuse, the mantra for a radical restructuring of Medicare. You are still playing that game, and you are still scaring seniors.

It is time to push aside those radical changes and deal with the numbers that will extend Medicare into the middle of the next decade, at which time we all have to sit down with another scenario and talk about the long term.

Thank you.

[The opening statement follows:]

STATEMENT OF CONGRESSMAN PETE STARK
COMMITTEE ON WAYS AND MEANS
JUNE 6, 1996

MEDICARE PART A TRUSTEES' REPORT

Mr. Chairman:

This is the third hearing we've had this year on the Part A Trust Fund running out of money in 5 or 6 years. There is no news here. I feel like I'm in the movie "Groundhog Day."

For the third time, we Democrats say "stop the hearings and let's vote to approve the $124 billion in Medicare cuts proposed by President Clinton, which will extend the life of the Trust Fund into the middle of the next decade."

Unlike your proposals, the President's cuts do not destroy traditional Medicare.

The Republican proposals, on the other hand, shift tens of billions in costs to seniors by allowing doctors and hospitals to charge extra for the basic Medicare benefit package. Your proposals herd seniors into managed care plans--the kind of plans the Chairman recently likened to Soviet-style medicine. Your proposals weaken many anti-fraud laws. Your proposals spend extra billions on Medical Savings Accounts for the wealthiest, healthiest seniors. Your proposals--driven by the desire to give tax breaks to the wealthiest in our society-- make life-threatening cuts in the safety net and academic research hospitals. Your proposals cap total spending on Medicare, regardless of underlying inflation, oil crises, or epidemics--a mindless cap that could destroy the program.

The dollar difference between us is not great. It is your additional policies which radically threaten Medicare that we oppose. If you really want a simple extension of the life of the Trust Fund, let's pass the President's cuts ASAP. But please, for the peace of mind of the nation's disabled and seniors, stop proposing radical restructuring and cost shifting to seniors.

Finally please, stop scaring seniors. Twenty-five times, Trustees have told us that at some date in the near future Medicare would run out of money, unless we did something--and we have always done what was necessary to keep the program functioning. We will again. No one ever made a big deal of these Trustee reports before last year. That was the year you proposed $270 billion in Medicare cuts in order to help pay for $245 billion in tax cuts. You then used the Trustees' report to cry "the sky is falling." It became your big excuse for this radical restructuring of Medicare. You are still playing that game, and you are still scaring seniors. It's time to stop.

Chairman ARCHER. So much for politics taking a holiday.

Madam Secretary, you may recognize my question because it is the same one I needed to ask last year. Given the rapid decline of the trust fund balances during the past year, how confident can we be that the trust fund will not collapse before 2001? Is it possible that the fund could become insolvent within the next 3 to 4 years, that is, 1999 or 2000?

Secretary SHALALA. I am sorry, Chairman Archer. Do you want our opening statements?

Chairman ARCHER. Oh, I am sorry. Of course, I do.

Secretary SHALALA. I would be happy to answer the question.

Mr. BUNNING. We listened to C–SPAN last night.

Chairman ARCHER. Just file that question away for the moment, and we are happy to receive your opening statements.

Ms. Secretary, Secretary Rubin, we are pleased to have you.

Secretary RUBIN. Delighted to be with you, Mr. Chairman.

Let me say that we will abandon the order of precedence in which we would ordinarily testify, and I will accede to Secretary Shalala since she is the lead person in the administration on health and health care.

Let me just make one comment, though, if I may, Mr. Chairman. We would agree with you that people do need to work together, and the worse this problem is, the more important it is that we act and we act now.

I would add that the President from the day he stepped into the Oval Office has focused on health care with enormous intensity, and each of the years that we have been here, he has proposed serious measures to extend the exhaustion date of the HI Trust Fund, the part A trust fund. The plan that we proposed in the 1996 and 1997 budgets would extend the trust fund to, roughly speaking, the middle of the next decade, and the 1997 plan was certified by the actuaries, I believe it was yesterday, as extending the exhaustion date to 2006. So that is an evaluation of the current program that the President has put forth.

With that, let me, if I may, turn the microphone over to Secretary Shalala.

Chairman ARCHER. Madam, Secretary, we will be pleased to have your statement.

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

Secretary SHALALA. Thank you. Mr. Chairman and Members of the Committee, thank you for the opportunity to report to the Committee on the 1996 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Supplementary Medical Insurance Trust Funds. My longer testimony has been submitted for the record.

I think it is important to start by agreeing that it is very essential that we make every effort to reassure the 37 million Americans who rely on Medicare; their benefits are and will be there for them. I think the bipartisan tone that you introduced would also lead us, both parties, to want to reassure the Medicare recipients that we intend to deal with the trust fund issue.

The HI Trust Fund had a current balance of almost $130 billion at the end of 1995, nearly an all-time high. Claims will be paid. The key is that we must act soon and in a bipartisan manner to ensure the solvency of the trust fund.

Since he took office in 1993, the President has viewed the financial health of Medicare as a top national priority. In his first year in office, the President proposed an economic recovery package that included Medicare changes that added 3 years of solvency to the trust fund. That bill, as you know, was passed in Congress without Republican support.

In 1994, the President again proposed changes in Medicare as part of his health care reform plan; that would have added 5 years of solvency to the trust fund.

In 1995 and again in 1996, the President is proposing $116 billion in additional Medicare savings, as scored by CBO, that would ensure trust fund solvency well into the next decade.

There is now a sufficient level of common ground agreement on Medicare savings that the two political parties can come to the table and agree on legislation. Our collective job is to do just that.

At the same time, we must begin to address the long-term challenges facing the Medicare Program. The trustees have proposed creation of an independent advisory group to help shape just such a package.

Let me spend a few minutes explaining this year's trustees' report. Trustee fund expenditure growth is driven by increases in enrollment, the complexity of medical services, and health care inflation. In the future, trust fund expenditures are projected to rise more rapidly than trust fund revenues. Anticipated increases in the volume and the complexity of medical services are expected to result in expenditure growth rates in excess of payroll growth.

Beginning in the year 2010, demographic shifts that will occur with retirement of the baby boom generation are projected to drive the expected imbalance between expenditures and revenues. At that point, a larger proportion of our population will be eligible for Medicare, and a smaller percentage will be paying the taxes that support the trust fund.

The 1996 trustees' report, which we present to you, estimates the trust fund will be exhausted by 2001. That reflects a change from our 1995 projection that the trust fund would remain solvent until 2002. This is based, in part, on 1995 actual experience. As we reported previously, actual expenditures from the trust fund were 3.1 percent greater than we had projected last year. In addition, revenue from payroll taxes was 1.2 percent lower than projected. Further, the actuaries have updated their projections in key areas.

[The 1996 trustees' report is being held in the Committee's files.]

First, spending for home health care, for skilled nursing facility care, for hospice care is growing more quickly than we had projected.

Second, hospitals are billing Medicare more quickly and performing a greater volume of more complex medical procedures on elderly patients.

Third, we have updated our long-range economic and demographic assumptions. These kinds of fluctuations are not uncommon.

In fact, 2 years ago, we also estimated that the HI Trust Fund would be depleted in 2001. Last year, when the fluctuations went the other way, we moved the date back to 2002, and now we are back to 2001. What hasn't changed and never will is our determination that these problems be addressed.

The trustees also continue to project rapid growth in Supplementary Medical Insurance Program cost well into the future. Over the next 5 years, outlays are expected to increase 63 percent in the aggregate and 55 percent per enrollee. During the same period, the program is expected to grow about 28 percent faster than the overall economy.

Based on these projections, the trustees make two recommendations. First, we recommend prompt, decisive, effective action to ensure short-term HI Trust Fund solvency. Such action is required, so that Medicare continues to meet its obligations to America's senior citizens and those living with disabilities.

Second, we recommend the establishment of a national advisory group on Medicare reform to provide critical information needed in the discussion and orderly development of solutions to the program's long-run financial problems.

If timely and effective action is taken, we believe that solutions will be found that can restore and maintain the financial integrity of the Medicare Program in the short term and in the long run.

The good news is that the President already has on the table a set of Medicare reforms that would achieve this first goal. Following the completion of the trustees' report, I ask the Health Care Financing Administration's actuaries to assess the impact of the President's plan on the solvency of the trust fund. Their analysis indicates that the enactment of the President's plan would guarantee nearly a decade of solvency. That would be more than enough time for the independent advisory group to conduct its important work and for the Congress to act on its recommendations.

Mr. Chairman, the President's plan represents a balanced approach, one that protects Medicare beneficiaries while expanding choice and preventive benefits. It does not impose additional costs on beneficiaries, and it does not open the trust fund to ill-conceived experimentation.

It is important to note that there are a sufficient number of policy areas in common in both the President's Medicare plan and the proposals made by the Republican leaders in Congress. What we need to do now is to focus on those common areas of savings and come together in support of a package of reforms to achieve our common goal.

Let me assure you, Mr. Chairman, that this administration and these trustees take seriously our responsibility to current and future Medicare beneficiaries to ensure the solvency of the Medicare Trust Fund. We can and I believe we will act together in a responsible bipartisan manner to restore financial solvency and public faith in this vital program.

Mr. Chairman, I now yield to my colleague, Secretary Rubin.

[The prepared statement follows:]

Testimony

Donna E. Shalala

U.S. Secretary of Health and Human Services

Mr. Chairman, Members of the Committee, thank you for the opportunity to address the Committee on the 1996 Annual Report of the Board of Trustees of the Federal Hospital Insurance (HI) Trust Fund and Supplementary Medical Insurance (SMI) Trust Fund. Each spring, the Medicare Trustees submit their annual report on the status of the Trust Funds to Congress. The report, which was released yesterday, projected that under intermediate assumptions the HI Trust Fund would be depleted in 2001.

We should not alarm our Medicare beneficiaries. The Trust Fund contained nearly $130 billion in assets at the end of 1995. The balance is currently near an all-time high, and there is no imminent danger that claims will not be paid. There is time for us to act but let me emphasize that we should act now to ensure the solvency of the HI Trust Fund. We are hopeful that we can find common ground with this Committee and with the Congress on Medicare reforms that will strengthen the HI Trust Fund in the short-term, and provide us with sufficient time to carefully consider approaches to preserving the fund's long-term solvency.

Let me remind you that this report is consistent with our three previous reports. In fact, over the past 15 years, the Trustees have projected the date of insolvency to be anywhere from 1987 to 2005, and each year they recommended that Congress take action to protect the HI Trust Fund. Each time, the Congress and the Executive branch have always been able to respond to short-term challenges, improve the short-term longevity of the HI Trust Fund, and ensure continued Medicare protection for beneficiaries.

Only a few years ago, when the Clinton Administration took office, the HI trust fund was projected to become insolvent in 1999. We immediately took action, proposing a package of $56 billion in Medicare savings that extended the solvency of that trust fund for another three years. I believe that our record reflects our unwavering commitment to ensuring that the trust fund remains solvent.

Summary of the 1996 Report and Recommendations.

Let me begin by describing the HI Trust Fund and the services it supports for Medicare beneficiaries. The HI Trust Fund pays for inpatient hospital care, as well as expenditures for home health services, skilled nursing care, and hospice care. In 1995, the HI Trust Fund paid for $116.4 billion in services for 33 million aged and 4 million disabled beneficiaries.

The HI Trust Fund is financed primarily by payroll taxes. Employees contribute 1.45 percent of wages, and there is a matching contribution by employers. Self-employed individuals contribute 2.9 percent of self-employment income. OBRA 93 removed the ceiling on the amount of earnings that are taxable; consequently, this tax applies to all earnings. The Trust Fund also receives income from interest earnings on its assets, revenue from taxation of Social Security benefits, and income from miscellaneous sources.

Supplemental Medical Insurance (SMI) or Part B covers physician services, along with outpatient hospital services, laboratory services and durable medical equipment. The SMI trust fund is financed by general revenues and premiums paid by enrollees and it covers Part B services. Part B premiums are deducted directly out of the monthly checks of Social Security beneficiaries. In 1996, premiums are $42.50 per month.

While SMI or Part B growth affects the federal budget deficit, unlike the HI Trust Fund, the SMI Trust Fund could never become insolvent. In the 1996 report, the Medicare Trustees note that the financing established for the SMI program for calendar year 1996 is estimated to be sufficient to cover program expenditures and preserve an adequate contingency reserve. Trust fund income is projected to equal expenditures for all future years -- but only because beneficiary premiums and government general revenue contributions are automatically increased to meet expected costs each year.

Medicare Trust Fund expenditures are driven by increases in enrollment, the complexity of medical services, and health care inflation generally. In the future, Trust Fund expenditures

are projected to rise more rapidly than Trust Fund revenues. Anticipated increases in the number and complexity of medical services are expected to continue to result in expenditure growth rates in excess of payroll growth. Beginning in 2010, the demographic shift that will occur with the retirement of the baby boom generation is projected to drive the expected imbalance between expenditures and revenues. After that point, a larger proportion of our population will be eligible for Medicare, and a correspondingly smaller percentage will be paying the taxes that support the Trust Fund. Over the 75 year long-range projection period, trust fund income as a percent of taxable payroll remains relatively level, while the expenditure rate rises steadily.

The 1996 Trustees Report projects about 5 years of HI Trust Fund solvency. Unless the Congress acts, the HI Trust Fund will be exhausted in 2001 using the Trustees' intermediate assumptions. These intermediate assumptions represent the Trustees' best estimate of the expected future economic and demographic trends that will affect the financial status of the HI Trust Fund.

There are several reasons why the 1996 projection differs from the 1995 projection. First, actual 1995 Trust Fund experience was somewhat worse than expected, and three main factors, involving Trust Fund expenditures, Trust Fund income, and economic assumptions, contributed to this estimating variation.

(1) Actual expenditures were 3.1 percent greater than the Trustees had projected last year, primarily because hospital patients were somewhat sicker and more costly, and because hospitals billed Medicare more rapidly in 1995 than we had projected at the outset of last year.

(2) Income to the Trust Fund was 1.2 percent lower than projected, primarily because of slower than expected wage growth and because of our lack of experience in estimating the income resulting from the payroll tax changes made in OBRA 1993.

(3) Each year the Trustees use more current data and update their assumptions as they evaluate the performance and solvency of the HI Trust Fund.

In addition to actual 1995 Trust Fund experience, other factors contributed to our new projection that the long-term financial balance of the Trust Fund will be less favorable than we had projected last year.

(1) Use of skilled nursing facility and home health services is now projected to grow at a faster rate in the future than we had projected last year.

(2) We now project future hospital patients will be somewhat sicker and more costly than previously projected.

(3) We have updated our long range economic and demographic assumptions.

(4) The new 75 year window on which we base our long range projections includes 2070, an additional year of poor performance, but no longer includes 1995, a year of relatively good performance.

Based on our projections, the Trustees make two recommendations. First, we recommend prompt, decisive, effective action to ensure short term HI Trust Fund solvency. Such action is required so that Medicare services continue smoothly, as beneficiaries expect. It also is required to ensure sufficient time for consideration of options to ensure long run Trust Fund solvency.

Our second recommendation is related to Medicare's long term financial concerns. The Trustees recommend the establishment of an advisory group to address long term solvency. The advisory group for Medicare recommended by the Trustees will contribute to the

development and thoughtful consideration of policy options in response to this unprecedented demographic shift.

The President Has a Plan to Ensure the Short-Term Solvency of the Trust Fund.

Since taking office, the President has worked to improve HI Trust Fund solvency and has taken concrete action to strengthen Medicare.

As I mentioned earlier, the President's 1993 five-year deficit reduction package (OBRA 93) extended the life of the Trust Fund by an additional three years by achieving realistic Medicare savings and by stimulating general growth in the economy. In addition, the President's health care reform plan, the Health Security Act, would have extended the life of the HI Trust Fund for an additional five years.

This Administration continues its commitment to controlling Medicare costs in the future. As part of his comprehensive plan to balance the Federal budget, the President has proposed $116 billion as scored by CBO in specific policy changes designed to strengthen Medicare. The President's proposal will ensure the life of the HI Trust Fund for about ten years from now, as both our actuaries and CBO have estimated.

To achieve these savings, the Administration's plan modifies Medicare provider payments in a number of ways that promote greater efficiency and make Medicare a more prudent purchaser. Our plan also achieves savings through increased efforts to combat waste, fraud and abuse. We also propose to move part of the financing of the home health benefit to Part B so that under Prat A it retruns to the acute-care benefit that it was intended to be. Importantly, we would achieve these savings and extend the life of the HI Trust Fund while maintaining and strengthening key protections for the beneficiaries Medicare serves.

The primary HI savings achieved in the President's proposal are derived from specific provider payment provisions and by shifting the financing of the post-hospital aspect of the home health benefit back to Part B. The plan provides incentives to hospitals for efficiency by constraining updates for hospital operating costs, reimbursing reasonable levels of capital costs, reforming medical education payments, and reforming the rules governing transfers from a hospital to a post-acute care facility. It also reforms payments to home health agencies and skilled nursing facilities by establishing prospective payment systems for these providers.

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 percent of program costs. Second, our plan does not contain dangerous changes -- like MSAs that cost money and undermine the HI Trust Fund by encouraging new plans to engage in "cherry picking" of healthier beneficiaries. Third, the Administration also would maintain critical limits on "balance billing," which protect the program's 37 million beneficiaries from excessive charges from providers. Fourth, our plan maintains important protections for low-income Medicare beneficiaries. Fifth, our package expands the range of private plans available under Medicare without harming the traditional fee-for-service program or shifting new, burdensome cost responsibilities onto beneficiaries. Finally, coverage of key preventive benefits like mammograms are improved under our proposal.

Conclusion

As the Trustees have recommended, action is needed in the short-run to gain sufficient time for an advisory group to make recommendations on approaches to long-term solvency. It would be irresponsible not to take action.

While we have major concerns with elements in the Republican budget proposal that are threatening to the Medicare program and to its beneficiaries, we do acknowledge areas of

commonality. We note that CBO has estimated that both the Republican and the Administration's balanced budget proposals would have the effect of extending the HI Trust Fund solvency for about the next decade. It is time to set aside the controversial elements in the competing Medicare proposals to fashion a Medicare package of changes that can be enacted and that can extend the HI Trust Fund sufficiently in the short-term to enable us to face the challenges of the future.

This Administration believes in Medicare. We take seriously our responsibility to current and future Medicare beneficiaries to ensure the solvency of the HI Trust Fund. The Trustees Report is a call to action, but it should not be cause for unnecessary alarm to beneficiaries, present or future. We can and must move forward in a responsible, bipartisan manner to quickly enact reasonable Medicare reforms that will address short-term solvency, providing us with sufficient time to carefully consider approaches to preserving Medicare for the long-term.

Chairman ARCHER. Mr. Secretary.

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

Secretary RUBIN. Mr. Chairman, thank you.

I will submit, if I may, a written statement for the record.

Chairman ARCHER. Without objection, both of your written statements, if they are lengthier than your oral presentation——

Secretary RUBIN. They are.

Chairman ARCHER [continuing]. Will be inserted in the record.

Secretary RUBIN. Good. Thank you, Mr. Chairman.

I, too, am pleased to appear once again before this Committee in my role as managing trustee and chairman of the Medicare Board of Trustees.

Each year, as Secretary Shalala said, we report to the Congress on the financial status and prospects of the two Medicare Trust Funds. Secretary Shalala has just reported the essence of the report on those two funds.

Surely, one of the most important accomplishments of this country over the past 30 years has been to substantially reduce poverty among our senior citizens and disabled persons, and thereby also reduce the burden on and the anxiety of their children.

Medicare has been an integral part of this very successful effort. There are few issues of greater concern to working families than the cost of retirement and providing health care to the elderly.

The trustees consist not only of three members of the President's Cabinet, but also two outside trustees. Again, this year the trustees have reported what the trustees have been saying each year for the past several years: That the Medicare Trust Fund must be strengthened. We said that in 1993, we said that in 1994, we said that in 1995, and it is no news that we say that again in 1996.

As trustees who are members of the administration, we have worked with the President to accomplish exactly this. As Secretary Shalala said, in 1993 the President enacted reductions with respect to Medicare that extended the HI Trust Fund exhaustion date by 3 years, to 2002.

The President's 1996 and 1997 budget proposals both include Medicare plans that would extend the HI Trust Fund by roughly 10 years, to the middle of the next decade, in the context of a balanced budget and without spending reductions that we consider excessive or structural changes that we consider imprudent.

Thus, 1 year ago the President offered a budget plan to extend the exhaustion date of the Medicare Trust Fund. We could have done it then. We could do it now. Mr. Chairman, we agree with you, it is absolutely time to get this job done, and it is our desire to work with Congress to get this job done.

The President and the congressional majority have made proposals that address this issue, but there are significant differences, as I just suggested, both in the excess of the reductions that the congressional majority recommends over the reductions recommended by the President and in structural changes which we do not consider to be sound.

Having said that, as Secretary Shalala said, there is enough common ground so that, we believe, a Medicare plan could be put into

effect that would extend the exhaustion date by enough years so that there would be more than ample time to put in place a program to deal with the long-run problems of the Medicare Trust Fund.

The administration has on the table a proposal to address the HI Trust Fund problem and the rising cost in the rest of the Medicare Program in a thoughtful manner and to produce effective, acceptable solutions that will stand the test of time.

Mr. Chairman, we are fully ready to work with you and the Members of the Committee and the Members of Congress to do what is necessary to meet the needs that the trustees have spoken to each of the past several years: To put in place an effective Medicare reform plan that will extend the exhaustion date and then get to work on the long-term problems of Medicare using, as Secretary Shalala said, a commission that we recommend be established.

Thank you.

[The prepared statement follows:]

ADV 9:30 a.m. EDT
Remarks as prepared for delivery.
June 6, 1996

RECORD TESTIMONY OF TREASURY SECRETARY ROBERT E. RUBIN
COMMITTEE ON WAYS AND MEANS

Mr. Chairman and Members of the Committee:

I am pleased to once again appear before the Ways and Means Committee in my role as Managing Trustee and Chairman of the Medicare Boards of Trustees. The Boards report annually to the Congress on the financial status of two separate Medicare trust funds -- the Hospital Insurance (or HI) Trust Fund and the Supplementary Medical Insurance (or SMI) Trust Fund.

One of the most important things our country has done over the past 30 years has been to work to reduce poverty and deprivation among senior citizens and disabled persons, and thereby also reduce the burden on and the anxiety of their children. 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.

As we have said for many years, the exhaustion date for Medicare is close. We should act. We must act. The best solution before the Congress to fix Medicare has been offered by President Clinton in his balanced budget proposal. We should pass that plan now, and then work together on a bipartisan basis to develop a long-term solution that the program needs and the country deserves.

The trustees include the members of the cabinet directly concerned with Social Security and Medicare, plus two members representing the broader public interest. As the trustees have reported for a number of years, this year's reports confirm that the costs of the SMI program continue to rise rapidly and that the HI Trust Fund will be exhausted about a year after the turn of the century. We note that as of December 1995 the HI trust fund had a balance of $130 billion, but that it is projected to be depleted in the year 2001. All of the trustees met yesterday and agree with the report.

This is, obviously, not news to this committee. We provided a similar report a year ago, when the exhaustion date was projected to be 2002, and the year before, when we projected it to be 2001. Secretary Shalala and I also testified before your committee on this subject three months ago. Finally, the Congressional Budget Office produced its own independent projection last month, with an exhaustion date of 2001.

As we have in the past, we strongly urge prompt enactment of legislation to address the HI Trust Fund shortfall. Although the President and the Congress have made proposals that address this issue, there are structural and policy differences between them. However, there should be sufficient common ground to agree on legislation to extend the life of the trust fund.

We also note that this is only a first step in the longer-term process of review and reform. There are important changes underway in our health care system. These changes will affect both the quality and cost of medical care, and they will affect our decisions concerning Medicare. There are also significant demographic shifts ahead as the baby boom generation begins to retire in 2010 and the rates of retirees to working Americans begins to rise more steeply. We as trustees have recommended the creation of an advisory group to review these complex issues and help fashion solutions.

From the very beginning, this Administration has clearly recognized the importance of maintaining the solvency of the HI trust fund. The President's 1993 deficit reduction plan extended the trust fund exhaustion date by three years.

Last year, the Administration proposed additional measures to extend the HI trust fund. The President has advocated since June of 1995 reducing Medicare spending growth per beneficiary with savings scored by the Congressional Budget Office at $116 billion through 2002 and guaranteeing the solvency of the trust fund for more than a decade. The reforms give seniors more choices among private health plans, attack fraud and abuse, cuts the growth of provider payments but holds the Part B premium to 25 percent of program costs.

Medicare financing is a complex interaction of demographics and the rapidly rising costs that affect all parts of our health care system. We need to carefully reform Medicare. The Administration believes that the growth of federal health care expenditures, including Medicare, needs to be reduced in order to control the budget. But reducing this growth must be done by carefully weighing trade-offs and reforming these programs in the context of its impact on the health care delivery system. You can reach a balanced budget by preserving what is right about Medicare and still produce savings, or you can cut Medicare the wrong way at the cost of irreversibly damaging this important program.

Arbitrary attempts to resolve the financing crisis may restore solvency to the HI Trust Fund, but will create and intensify other problems. Specifically, we are concerned that excessive reductions in Medicare, largely through reduced payments to hospitals, and particularly in combination with deep Medicaid cuts may shift costs to the private sector and reduce quality of care for Medicare beneficiaries.

The Trustees have again provided the Congress, as they have for the last several years, with early and continued warning. It is time to act. Although the exhaustion date is now believed to be five, instead of six, years away, there still is more than enough time to extend it. It is better to do part of the job now, and do it right to avoid a hasty, unworkable solution that may have to be undone in the future.

Financial Status of the Medicare Trust Funds

As noted, the 1996 Trustees report projects the HI Trust Fund will be exhausted in 2001, one year sooner than projected last year. This worsening largely reflects program cost increases.

Over the long term, the 75-year actuarial deficit (interpreted as the amount of payroll tax increase or benefit reduction needed now to balance the trust fund over the next 75 years) was increased from last year's estimate of 3.52 percent to 4.52 percent of payroll.

The increase is largely the result of larger projected increases in the complexity of cases, a more rapid projected growth rate in home health care and skilled nursing facility costs, and the permanent effects of the higher than expected level of spending since the last report. The HI program remains substantially out of long-run actuarial balance, and that problem is not addressed by either of the current Congressional budget resolutions or the Administration's proposal.

The Trustees also continue to project rapid growth in Supplemental Medical Insurance program costs well into the future Over the next five years, outlays are expected to increase 63 percent in the aggregate and 55 percent per enrollee. During the same period, the program is expected to grow about 28 percent faster than the overall economy.

Combined HI and SMI costs are expected to increase from 2 7 percent of GDP in 1996 to 8.8 percent in 2070 -- more than tripling -- due to anticipated demographic changes and projected increases in costs per beneficiary. Because of this rise in long-term program costs and the expected exhaustion of the HI fund in 2001, the Board of Trustees recommends effective Medicare reform, but again, we believe that this must be done with a careful weighing and balancing of all impacts and all considerations and in the context of the rapidly changing health care sector.

Medicare Financing and Health Care Reform

When the Hospital Insurance program faced financing problems in the past, Congress and the Executive Branch have been able to cooperate on making modest changes in the program that slowed the rate of cost increases.

The program has experienced financial difficulty since its inception in 1966 because of rapidly rising hospital costs, higher-than-expected utilization, and program expansion. During the 1990s, program expenditure increases were below those of the previous decade, reflecting a comparatively moderate rise in overall health care inflation and utilization.

Much can be done to strengthen the Medicare program. Taking steps to extend health insurance coverage to the uninsured population, and developing, through insurance reform, a competitive health care market will create a more efficient system. This increased efficiency will slow the growth in overall health care spending and provide long-term savings to the Medicare program.

In closing, the Administration has proposed steps to strengthen the HI Trust Fund problem and address the rising costs in the rest of the Medicare program in a thoughtful manner, and produce effective, acceptable solutions that will stand the test of time. Although we don't have bipartisan agreement on some of the structural changes that many members of the Majority are advocating, last year there was agreement on a significant number of Medicare proposals that would strengthen the Part A trust fund.

The President's balanced budget plan contains savings proposals that our actuaries estimate would extend the solvency of the Hospital Insurance Trust Fund through 2006, long enough to give us time to work together on longer term solutions. As we have done in the past, the Clinton Administration remains ready to work with the Congress to achieve the security that is so important to elderly Americans.

I will be happy to answer any questions you may have.

Chairman ARCHER. Thank you, Mr. Secretary.

Mr. Secretary, as Chairman of the Board of Trustees, of the Medicare Board of Trustees, could you just briefly tell the Committee why this board was created initially and what its role and responsibility is?

Secretary RUBIN. The board being the Board of Trustees?

Chairman ARCHER. Yes.

Secretary RUBIN. My view, Mr. Chairman, is that the Board of Trustees has the responsibility for overseeing the work of the actuaries and to review the soundness of the part A trust fund and to do exactly what we are doing today, to come to you, the Congress, and to make our recommendations going forward.

I might add that I think that whether it was originally intended or not, I think the board does have an additional benefit, and that is that it is an energizing force. These annual meetings become an action-forcing event, and I think the board has served a very useful purpose.

If you go back, as I said in my statement, to 1993, the 3½ years at least that I have been part of all this and being part of the administration, the trustees each year have gone to the Congress and said the exhaustion date is coming much too soon, we must act and we must act now, and as I said in my statement, each year the President has been very actively involved in putting forth proposals enacted in 1993 and then proposed, but not enacted subsequently to that, to extend the trust fund.

Chairman ARCHER. I thank you for that because that certainly is what I believed the purpose of the board is, also.

You mentioned the makeup of the board. Can you tell us how many of the board are Democrats and how many are Republicans?

Secretary RUBIN. The three members of the administration, it will probably not surprise you to hear, are Democrats.

Chairman ARCHER. Or certainly would not admit, otherwise. OK.

Secretary RUBIN. I think I can safely say they are Democrats, but you are correct. If they weren't, I suspect they wouldn't acknowledge that.

We have two outside members. I honestly don't know what they are. We don't function in that way.

Chairman ARCHER. No, I understand that.

Secretary RUBIN. Mr. Chairman, we had a really good meeting yesterday. We had the reports from the actuaries, and then we had questions. We had discussion. We had a little bit of debate. It was really a very good meeting. I couldn't tell you from the discussion whether these people were Democrats, Republicans, Monarchists, or whatever they might be. All I could tell you is it was a very good substantive discussion.

Chairman ARCHER. The point I am trying to get at is that this, if anything, is really a bipartisan board that is objectively looking at Medicare, and giving us not any sort of a partisan report, but one that is objectively done in a way to let the country know, year by year, what the status of Medicare is, and as you said, help to activate solutions if there are problems on the horizon.

Secretary RUBIN. Mr. Chairman, absolutely, and the work that we report to you is actually done by the career actuaries.

Chairman ARCHER. Yes, yes.

The reason I am asking that is because I believe in looking at your report that it is professionally done and that it is an objective look to the best of our ability to project what will happen in Medicare, or I would say as close to the truth in moving away from any election rhetoric or partisanship or politics or anything else as we could have in evaluating Medicare.

I know that many senior citizens have come to me and said, "Gee, we really would like to read that report. We get 10-second sound bytes on television. We get a little blurb in the newspapers, and maybe if we watch C–SPAN, we can see the hearings." I am wondering if it wouldn't make sense for this to go out regularly to every senior citizen so that they can be aware of precisely in an objective way of what is going on with Medicare.

I mentioned that in my opening statement, and I would hope that you would agree to let the senior citizens have the truth.

I assume also, from what I have just said, that you would agree that what you have put in there is not something to scare senior citizens, and that by getting the facts out and getting the truth out that that is not an effort on your part to scare senior citizens or on the part of any of the members of the Board of Trustees, but really to just put the reality before the American public.

Secretary RUBIN. Mr. Chairman, absolutely. The trustees' report is done by professional actuaries, and the desire is simply to, as you correctly say, promulgate the facts with respect to Medicare to the American people. We have a short form of this which is, I think, relatively readable and relatively understandable.

Chairman ARCHER. I would hope that the entire report, so that it would not be subject to any possible editorializing through synopsis or whatever else would be submitted and given and mailed to all of the senior citizens which is easy to do through the computerization of the program.

Let me go back to my first question which jumped in before you were able to make your statements. Last year I asked you, Madam Secretary, whether the decline in the trust fund balances could be more rapid than what was in the intermediate report, and as a fact, it did occur more rapidly than what was in the intermediate report.

Given this decline in the last year, is it possible now that the fund could become insolvent in an earlier period of time of 1999 or the year 2000?

Secretary SHALALA. Mr. Chairman, this is an intermediate estimate of an exhaustion date of 2001. It is the trustees' best estimate of the exhaustion date.

It is true that a more pessimistic outcome, the actuary has suggested, is more likely than a more optimistic outcome. However, the intermediate estimate of exhaustion is still our best estimate. The actuary explains this issue in his own letter, which is on page 95 of the trust fund report.

Readers are cautioned not to focus solely on just one set of assumptions but rather to recognize that any result within the range shown can reasonably be expected to occur.

As noted in this report, the assets of the Hospital Insurance Trust Fund are projected to be depleted within 5½ years under all three sets of assumptions. Thus, regardless of the specific assumptions used, the need for prompt attention to the fund's financial imbalance is apparent.

What the actuaries have given us is a range. The low cost estimate is 5½ years. The intermediate is 5 years. The high cost is 4 years. The range is between 2000 and 2001. That is the narrowest range that we have had recently.

The reason for that is that as you get closer to the exhaustion date, your range gets closer and closer, and some people suggest you get slightly more accurate.

The best way to explain it is through an analogy, Chairman Archer. Do you play tennis?

Chairman ARCHER. I used to.

Secretary SHALALA. If I had a tennis ball and I was aiming at your nameplate, if I aimed it from here, my chances of hitting your nameplate within range would be possible because I am a pretty good tennis player, but if I was a foot from you, my chances of hitting the nameplate would be much better. As we get closer to that exhaustion date, the range is going to narrow, and that is the point, I think, that we are all making. So, whether it is 2000 or 2001, we have picked what we think is the best estimate, which is the intermediate estimate.

I don't know whether Bob wants to add anything to that.

Chairman ARCHER. Based on what the actuaries have said, and I will read another part of what they said, "In particular, the likelihood of a future result that is more adverse than the intermediate projection may exceed the likelihood of a more favorable result."

Secretary SHALALA. Yes.

Chairman ARCHER. So it seems to me that the specific answer to my question must be that it is possible that it could be exhausted, possible that it could be exhausted at an earlier year.

Secretary SHALALA. That is precisely why we do estimates. What we have done is chosen the intermediate estimate, but provided and not hidden in any way the range that has been provided by the actuary. The high-cost range which is the most pessimistic is the year 2000, but the whole range is from 2000 to 2001.

Secretary RUBIN. Mr. Chairman, could I add one thing on that?

Chairman ARCHER. Sure.

Secretary RUBIN. In reference to this very paragraph you just read, and it said exactly what you said it says, one of the actuaries made the comment yesterday that there has been a tendency in the past at least when they miss an estimate in 1 year to somewhat overreact in the next year. It was just an informal comment, not a formal comment. That would suggest the opposite of this since they miscalculated last year, and there is a larger deficit; that maybe this year they will go in the other direction.

The conclusion I reach from all of this is really the one that you had in your opening statement, which is, the worse this thing looks, the more important it is that we get together, we act, we act now, and as Secretary Shalala and I both said, we believe that there is more than an adequate basis for coming together and putting in place a plan and putting in place a plan now.

Chairman ARCHER. I think the importance of this is that the earlier that it might occur, the more important it is that we act earlier.

Secretary RUBIN. Correct.

Chairman ARCHER. That is the important point that I would like to make.

Unfortunately, if we wait too late, what we know from past experience is that once we are right up at the edge of the cliff, the only option is to increase taxes, and increasing more payroll taxes is a deterrent to job creation and will be highly negative on the economy and unfair to future generations. We cannot let that happen.

Let me also ask you one last question, and then I will yield. Medicare has, up until now, always had the funds to meet its payments out of the part A trust fund. I think it is important also for people to understand that what we are talking about here is both part A trust fund and part B, but part B, which is for simplicity's sake the doctor's bills, part A, the hospital bills, part B is not in the trust fund, per se. It has its own trust fund, but that trust fund automatically is replenished out of the General Treasury, and, therefore, cannot go bankrupt until the Nation itself goes bankrupt.

Mr. Secretary, I assume that will not happen on your watch or my watch, but as long as the general fund, the General Treasury has money, it will automatically replenish part B.

Of course, that means the potential of borrowing more money from the outside or raising taxes or reducing spending in some other category, but part A can go bankrupt, the hospital funds, because there is no authorization under the law to pay those bills if the money is not in the trust fund, and it is the recipient of the payroll withholding taxes, the so-called FICA taxes.

I see you both nodding your heads. So I assume you agree with everything that I have said up to this point.

Medicare part A has also always had in a trust fund enough to pay the hospital bills that are submitted. That would not be the case under bankruptcy.

Do you have a fiscal contingency plan for paying benefits if the trust fund went broke, or do you have any other legal authority to pay Medicare's bills from any other fund or source if the trust fund is bankrupt?

Secretary RUBIN. Mr. Chairman, I will yield to Secretary Shalala. She has a different response, but my response would be that it simply can't happen.

We have at least 5 years under the report that we have just submitted. As you have said now a number of times, and we obviously agree with you, it is imperative that we act and act now, and I assume, Mr. Chairman, that even if we don't act very quickly, we will act relatively soon because, as you said, the exhaustion date is coming closer.

I do not believe, at least in my judgment, that is not a realistic problem for the American people because I believe that the approach of the exhaustion date is simply going to force the political processors to do what they need to do, though I agree with you they should do it as soon as possible.

Secretary SHALALA. Let me share Secretary Rubin's view that we are simply not going to let this happen. But your direct question is, is there any imminent danger that bills won't be paid. The answer is no. The HI Trust Fund has about $120 billion in assets which the HI trustees project is enough to ensure the part A bene-

fits will be paid for about 5 years. So there is plenty of time here to enact legislation.

If the trust fund assets were depleted, Medicare would still be able to pay a portion of the claims using current income from the HI payroll tax and other sources, but the point I think everybody is making on exhaustion is that we would not have enough income to pay all the claims on time. So, initially, there would be a delay in provider payments, for example. Let me reiterate—none of us intends that that happen.

Chairman ARCHER. No. I understand that none of us intend that it happen, and hopefully, as we both have been saying, we will work out an answer to this, but using your analogy or comparison to tennis, the closer you get in this case, the harder it is to hit the nameplate.

Secretary SHALALA. Which leads us to the conclusion that we should do it now.

Chairman ARCHER. Precisely.

Mr. Gibbons.

Mr. GIBBONS. Thank you, Mr. Chairman. I will be brief, and I think you have been very thorough.

Mr. Chairman, we believe the trustees. We are ready, willing, and able to act. I have read all of these trustees' reports in the past. This one is not that much more shocking than all of them have been over 25 years.

In the past, we have been down to 2 years of solvency, and we have fixed it without a lot of folderol, and we can do it this time again.

I think the principal difference between the Democrat side and the Republican side is that we want to take the savings that we create in Medicare and plow it back into the Medicare Trust Fund and not use those savings to offset tax cuts for very fortunate Americans. That is the principal difference.

When we can work out that little political difference, we can work out the future solvency of the trust fund for a long, long time.

I thank you, Mr. Chairman. That is all I have to say.

Chairman ARCHER. Sam, I had hoped that we would not get into that sort of partisanship today. I have tried to lay the groundwork to stay away from it because your colleague, Mr. Stark, said the same thing. I would like for us to stick to the facts.

Both of you know that any savings from any plan, whether it is the administration's plan or whether it comes out of the Congress will stay in the trust fund and will be used to pay the bills out of the trust fund.

What is done in other parts of the budget are totally independent of that. So it is just not factual, and I wish we could stay away from the partisanship. We are saying here is what divides us politically and so on. Let us talk about the facts, and let us see if we can't get the truth to the American people and find an answer that we can agree on.

Mr. Thomas.

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

It might surprise some folks in the room that I agree with a portion of what the gentleman from California, Mr. Stark, said that this does, indeed, remind me also of the movie, "Groundhog Day."

If you actually saw the movie, the reason Bill Murray was condemned to repeating the same day over and over again was because he wasn't getting it right, and what we have done in coming here over and over again is, I think, we have to admit we haven't gotten it right. Just as in the movie, until we get it right, we are going to be doing it over and over again.

What does getting it right where Medicare is concerned mean? It means no gimmicks, no new taxes, and certainly no deliberate misrepresentation of actions.

Madam Secretary, on page 3 of your testimony, you indicated,

> . . . the President's 1993 5-year deficit reduction package . . . extended the life of the trust fund by an additional 3 years by achieving realistic Medicare savings and by stimulating general growth in the economy.

Didn't you also get more than $50 billion in new taxes by removing the cap on the payroll tax for the HI Fund and by taxing Social Security recipients and moving that money which otherwise would have gone into the general fund into the HI Trust Fund? Isn't that also the way in which the President helped solve the HI Trust Fund in 1993, or am I inaccurate?

Secretary RUBIN. Do you want me to respond?

Secretary SHALALA. Yes.

Secretary RUBIN. Mr. Thomas, as I remember the 1993 program, the President took measures that involved, I think, about $52 billion.

Mr. THOMAS. Did the President's plan remove the cap on the payroll taxes?

Secretary RUBIN. The President's plan removed the cap on the payroll taxes——

Mr. THOMAS. Did the President——

Secretary RUBIN. Wait 1 minute. No. Let me finish.

Mr. THOMAS. The answer is yes, Mr. Rubin.

Secretary RUBIN. No.

Mr. THOMAS. I have 5 minutes, please.

Oh, it didn't raise the cap?

Secretary RUBIN. Wait, let me finish. He raised the tax on the payroll tax——

Mr. THOMAS. Yes.

Secretary RUBIN [continuing]. So that most affluent Americans would have to pay their full share of the taxes. That was part of a total tax program. That was part of a total deficit reduction program. That has generated the recovery we are enjoying today.

Mr. THOMAS. And you raised taxes on Social Security recipients and shifted it from what would have been the general fund into the HI Trust Fund. Isn't that also true?

Secretary RUBIN. What he did was to reduce about $50 billion, I think, in Medicare expenses. He also took two tax measures that hit the most affluent Americans. He put that into the HI Trust Fund. These were politically difficult, but subsequently responsible measures in which the most affluent Americans contributed along with the cuts in the health care program in order to extend the HI Trust Fund by 3 years.

Mr. THOMAS. So you agree there were $50 billion in new taxes that were used to shore up the fund for the 3 years?

Secretary RUBIN. I am not sure about——

Mr. THOMAS. Madam Secretary——

Secretary RUBIN. I am not sure about——

Mr. THOMAS [continuing]. On page 3 of your testimony——

Secretary RUBIN. Wait 1 minute. I am not sure about the $50 billion.

Mr. THOMAS. Madam Secretary, on page 3 of your testimony, you say that the current President's plan helps save Medicare by shifting the financing of the posthospital aspect of the home health care benefit back to part B. What percentage of that would be paid out of the general fund?

Secretary RUBIN. I can answer.

Secretary SHALALA. Yes.

Secretary RUBIN. Are you talking about the structure of the current plan?

Secretary SHALALA. Yes. He is talking about shifting the home health care——

Secretary RUBIN. Yes.

Secretary SHALALA [continuing]. Payments from part A to part B.

Mr. THOMAS. $55 billion of the President's solution was shifting from HI to the part B program. What percentage was paid out of the general fund in that program?

Secretary RUBIN. $55 billion is shifted to the part B program.

Mr. THOMAS. Yes. What percentage would be paid out of general fund money?

Secretary RUBIN. As a matter of law, as you know, the premium is supposed to constitute 25 percent of the part B program, but that is an arbitrary number determined at the beginning of each year.

Mr. THOMAS. No, I think you are wrong.

What percentage is going to be paid out of the general fund on the shifting of home health care from the HI fund?

Secretary RUBIN. Oh, the $55 billion? It will all be paid out of the general fund.

Mr. THOMAS. It will all be paid out of the general fund.

Secretary RUBIN. That is correct, and you know something—wait 1 minute, Mr. Thomas.

Mr. THOMAS. Madam Secretary——

Secretary RUBIN. Mr. Thomas.

Mr. THOMAS [continuing]. On national TV yesterday——

Secretary RUBIN. Mr. Thomas, let me finish.

Mr. THOMAS. Yesterday, you said you were going back to the program prior to 1980. Did you purposely mislead the American people, or did you not understand the way the program ran in the seventies? Because it was subject to the deductibles and the premiums in the eighties, and this, as you might have to admit, is an unprecedented shift, 100 percent from the HI Trust Fund to the general fund. Isn't that also true?

Secretary SHALALA. Congressman Thomas, it also——

Mr. THOMAS. The taxpayers are going to pick up 100 percent of this fund. It never occurred previously. You misrepresented the fact that it was going back to the program prior to 1980, or did you not understand how the program worked? Your choice.

Secretary SHALALA. Congressman Thomas, this is, in fact, one of the areas of common agreement, I would point out, since it was also incorporated in the Republican plan, the transfer of——

Mr. THOMAS. I think you will find that is not so.

Secretary SHALALA [continuing]. Part of the home——

Mr. THOMAS. That is not so. The Republican plan does not include that.

Secretary SHALALA. In fact——

Mr. THOMAS. Is this unprecedented, moving 100 percent from the HI to the general fund? Is this unprecedented?

Secretary SHALALA. In fact, Congressman Thomas, it was included in the——

Mr. THOMAS. Is this unprecedented, moving——

Secretary SHALALA [continuing]. Republican plan.

Mr. THOMAS [continuing]. $55 billion?

Mr. STARK. Mr. Chairman, can the witness be allowed to testify?

Secretary SHALALA. It has been a recommendation of Republican plans from the beginning, and 227 Republicans, including yourself, voted——

Mr. THOMAS. Does our most current——

Secretary SHALALA [continuing]. For the transfer——

Mr. THOMAS [continuing]. Plan include that?

Secretary SHALALA [continuing]. From home health.

Mr. THOMAS. Does our most current plan include that?

Secretary SHALALA. Congressman Thomas, to be fair to me, we have not seen the details of your most current plan.

Mr. THOMAS. And I am telling you the plan doesn't do that.

Your plan moves $55 billion from the general fund, the trust fund to the general fund.

Secretary SHALALA. No.

Mr. THOMAS. Has that ever been done historically, to your knowledge?

Secretary SHALALA. Yes, by the Republicans who——

Mr. THOMAS. No. Historically——

Mr. STARK. Mr. Chairman? Mr. Chairman? Mr. Chairman?

Mr. THOMAS. It is obvious that——

Mr. STARK. Mr. Chairman?

Mr. THOMAS [continuing]. "Groundhog Day" is going to be repeated until they quit purposely misrepresenting statements.

Chairman ARCHER. The gentleman's time has expired.

Mr. LEVIN. Mr. Chairman, a point of procedure?

Chairman ARCHER. The gentleman's time has expired.

Mr. LEVIN. Mr. Chairman, I have a point of procedure.

Mr. Chairman?

Chairman ARCHER. Mrs. Johnson.

Mr. LEVIN. Mr. Chairman, I have a point of procedure.

Mrs. JOHNSON. Thank you, Mr. Chairman.

Chairman ARCHER. Mrs. Johnson is recognized for inquiry.

Mrs. JOHNSON. Thank you, Mr. Chairman.

Mr. Chairman and Secretary Shalala and Mr. Rubin, I have long been a strong advocate of home health services. I also believe very, very firmly that we have a public trust to manage Medicare in a way that assures that it will be there.

We have an opportunity and we have a responsibility to act on this program this year. When we have seen a program shoot from a $5 billion surplus to a $100 billion deficit in a single year, you have got a swing of $106 billion in 1 year. That is billions. That is not millions. That is not hundreds of thousands. That is not thousands. I mean, $106 billion in the eyes of most of the people I represent is, frankly, an awful lot of money. We really have to act this year if we are going to preserve Medicare.

You say there is a lot of agreement, and bottom line, on the outside there is. The President is willing to cut $128 billion. That coupled with some real reforms that would reduce the rate of growth in the way that the First Lady testified before this Committee was necessary would certainly assure the American public that we were capable of fulfilling the public trust that we share. As we examine those numbers, we really have to try to focus on the facts.

When you save money with your left hand by simply moving some of that money to another fund, it is not the same as saving money, period. So the $55 billion that you are going to shift from part A to part B, which under the Republican proposal we would simply control, we would do things so that we would control the rate of growth in spending in Medicare, I think responsibly so that we can make those savings, you want to make that savings by simply taking some money from one pot and dumping it into another, but I want to think about where that money is going when it moves to the part B trust fund.

Currently, seniors pay $42 per month. Under current law, those premiums would rise to $54.70 by the year 2002. Under the President's proposal, if you move that $55 billion to part B, then under the President's proposal for a 25-percent premium and these transferred costs, premiums will be $69.50 in 2002, and this is according to CBO. I am not making this stuff up. I am not pulling this out of thin air. These are real dollar amounts that we are going to have to work with.

In other words, by moving the $55 billion from part A to part B, and in part B treating it as we traditionally have, then, you see, you increase premiums $15 per senior per month. That is a lot of money, and I think we have to think about that.

In addition, of course, you do also increase taxpayer subsidy so that the total would be $127 per month. Seniors pay $42. The government would pay $127. The government would pay $167 for disabled. That money shifts to the taxpayers and to the seniors. That is the way the program is structured.

Secretary SHALALA. Let me sort this out because I think there is some misreading of our plan.

First, we do accomplish the $55 million shift from part A to part B without increasing premiums, which does, in fact, help the trust fund, and as I indicated, is consistent with previous Republican proposals, such as H.R. 2425.

Second, our $55 million shift is not——

Mrs. JOHNSON. Madam Secretary, just a second. You need to clarify what you just said.

Secretary SHALALA. It is 100 percent picked up by the fund. We have it 100 percent.

Mrs. JOHNSON. Madam Secretary, if you will suspend. You need to clarify what you just said.

You testified that the program was going back to the old program. I have read it that way. The old program had 25 percent premiums. If you shift $55 billion to part B, that 25 percent is going to represent more dollars because that fund is taking more money. It is paying for more things. So it is costing more money. So the 25 percent is going to be of a larger pie. So, according to CBO, the costs are going to go up per beneficiary $15 per month in premium.

Secretary SHALALA. Congresswoman Johnson, I didn't testify regarding the pre-1980 program. I said it in answer to a question, as Congressman Thomas pointed out.

Chairman ARCHER. Without objection, the Chair will permit the Secretary to answer even though the time has expired.

Secretary SHALALA. Thank you very much, Congressman.

What I said about pre-1980 is that home health care was located in part B. That is the first point I made.

The second point I have just made is that when we shift $55 billion to part B to help the trust fund, we leave some of home health care in part A, the part that is attached to hospitalization, for instance, and to direct acute care, and we take the long-term chronic care and put that in part B which is from a policy point of view a more appropriate place to put it. Also, we do not raise premiums. We don't throw it into the pot and then redo the premium.

Mrs. JOHNSON. But who pays, then? If you move $55 billion——

Secretary SHALALA. The taxpayers. Clearly, the taxpayers. We said that it is 100 percent general fund-financed.

Mrs. JOHNSON. So this is a tax increase. I mean, let us get at it. If this is going to be new tax revenues, it has got to come from somewhere.

Secretary RUBIN. No. Congresswoman Johnson?

Mrs. JOHNSON. We have got to be straight about this.

Secretary RUBIN. Could I try it one time?

Secretary SHALALA. OK.

Secretary RUBIN. Let me try to be helpful for 1 second. What we did was to take the $55 billion, just as Secretary Shalala said.

Mr. THOMAS [presiding]. Mr. Secretary, the time was allowed for the Secretary of HHS to answer the question. The time has expired.

Secretary SHALALA. In addition to that, the $55 billion is not included in our $116 billion as certified by CBO. We do, in fact, take substantial savings out of part A, and I could go through those for you, too.

Mrs. JOHNSON. All I am saying, Madam Secretary, is that part A is going bankrupt by 2001. part B is also galloping toward bankruptcy. If we are going to move expenditures from one fund to another——

Chairman ARCHER. The gentlewoman's time has expired.

Mrs. JOHNSON [continuing]. We have to pay for them.

Mr. THOMAS. The gentleman from California.

Mr. STARK. Thank you, Mr. Chairman.

I just think it is kind of neat to have the Secretary of Treasury here and I can order him to answer me yes or no, and I want to tell you, when I pay my mortgage sometimes and that flexible rate

goes up, I want to call you, but I will just ask you this this morning, Mr. Secretary.

I recall that in 1993, as you indicated before, we did change the amount of the Social Security income that was taxable, and that money was dedicated to the part A trust fund. Is that correct? Yes or no.

Secretary RUBIN. The answer to that is correct, yes.

Mr. STARK. Nobody called it a gimmick, I don't recall, at that time.

Then, not so long ago, this Committee determined that it would be a good idea to decrease the amount that is taxed, and it would take the money out of the part A trust fund. Is that not correct?

Secretary RUBIN. That is my understanding.

Mr. STARK. About how much would that amount to, to the closest couple of billion for a 7-year window? It sticks in my mind, $30-some-odd-billion is what that cost the trust fund. Did anybody call that a gimmick that you recall?

Secretary RUBIN. If they did, Mr. Stark, I did not hear it.

Mr. STARK. I guess, further, that the trust funds, as I do recall, were part of a political compromise back in the sixties. They are not part of the Constitution, and we have moved items between A and B, at least in my experience in legislating on the Medicare area, and with bipartisan support. It was never called a gimmick.

Would you agree, and I would ask both of you this, that fixating on the trust funds obscures the real issue, which is what is total Medicare spending and what ought we do to control the package? Nobody has raised the issue of cutting billions out of Medicaid, which the Republicans are doing, which will impact most of the 40 percent of the Medicare beneficiaries who are poor and called that a gimmick.

Ought we not to deal with the trust fund and Medicare in its entirety? Would that not be the sensible, reasonable way to proceed?

Secretary RUBIN. Mr. Stark, the answer to that question is yes, and if I could just expand on my yes for 1 second.

Mr. STARK. Please, sir.

Secretary RUBIN. That is really precisely the point of the President's program to put in place reductions. Your point is absolutely right, to put reductions in part A that will extend the exhaustion date because while this was a creation of Congress, nevertheless, the creature does exist and it needs to be dealt with. Extend that to the middle of the next decade. Shift the $55 billion into the general fund. We would discipline with respect to the overall budget, and Mr. Thomas will take comfort from this—without any increase in taxes, and in fact, with a substantial middle class tax cut program, we were able to accomplish that and at the same time reach a CBO balanced budget in the year 2002 which seems to me fills out that answer.

Mr. RANGEL. Would the gentleman yield?

Mr. STARK. I would be glad to yield.

Mr. RANGEL. Thank you.

I won't be able to stay for this hearing, but I want to join in with the Chairman of the Committee with his bipartisan request to see whether or not we can make public to the senior citizens this Medicare trustees' report. I have to admit that every time I go home the

seniors are waiting for me at the airport asking me, "Is the report out, is the report out."

So I think it would be a great public service if you could really allay the fears of the seniors by issuing a report.

In addition to that, I really think that after they see the report and recognize the problem and in order to continue the spirit of bipartisanship, you might want to put some Republican solutions and some Democratic solutions to it. So that after you indicate how good the program has been, I think a quote from Senator Bob Dole saying that I was there fighting the fight, 1 out of 12 voting against Medicare in 1965, that might give some balance to where we are going in the future.

As a matter of fact, I think the distinguished Speaker's remarks might bring a bipartisan reflection on the serious nature of this when he said in 1995 that we didn't get rid of Medicare in round one because we don't think that is politically smart, and we don't think that is the right way to go through a transition, but we believe it is going to wither on the vine because we think people are going to voluntarily leave it and then go into how under the Republican plan doctors will be able to charge more than the regular reimbursement rates, so they can understand how we are going to make the transition.

Last, I hope, and this is going to be difficult, but it is very important, that you make certain that regarding the $345 billion tax cut, explain to them that it has nothing to do with the suggested $288 billion in cuts in Medicare, or for lack of a better word, savings because the only way to resolve this problem is to follow in the spirit of my friend, Mr. Thomas, in the Chair, in a bipartisan way, and I would appreciate it if we can get that report out.

Thank you.

Mr. THOMAS. The gentleman's time has expired.

Does the gentleman from Kentucky wish to inquire?

Mr. BUNNING. Yes. Thank you, Mr. Chairman.

Mr. Rubin, you are the head trustee of the Social Security Board of Trustees. You obviously know that the Secretary of the Treasury, the Secretary of Health and Human Services, the Secretary of Labor, Acting Commissioner Chater, one Democrat and one Republican are on that Board of Trustees. That is by law.

So the question that Chairman Archer asked you is that there are five Democrats and one Republican. You know that as well as I do.

Secretary RUBIN. Mr. Bunning, if I had known it, I would have responded to Chairman Archer. I truly did not, but I appreciate the information.

Mr. BUNNING. One of the main reasons that they have the trustees is to make sure that the Social Security Trust Fund gets a report every year, also.

Secretary RUBIN. Yes.

Mr. BUNNING. In fact, that happens to be the trustees' primary responsibility. The Medicare Trust Funds are just in coordination with the Social Security Trust Funds. I say that in all due respect to your answer to Chairman Archer.

Only in Washington, DC, could Mr. Stark's remarks be considered a cut since our proposal and the Balanced Budget Act of 1995

was to increase Medicare spending per beneficiary from $4,800 to about $7,200 per beneficiary. That is not a cut. That is an increase of almost $3,000 per beneficiary, $2,500.

Secretary Shalala, regarding the transfer of health care funds and the House-passed Medicare Preservation Act, we used a similar device. It was taken from a Democratic substitute offered during markup. It was dropped in the conference on the Balanced Budget Act as inappropriate, and setting a precedent, which Republicans agree that they could not and would not support.

So, in regard to your answer to Mrs. Johnson, those things were dropped in conference and never were voted on the floor of the House of Representatives. It was never sent to the President of the United States. The fact that he vetoed it even though it wasn't in the bill, it was not in the bill that the President had before him.

Secretary SHALALA. But it was passed in the House.

Mr. BUNNING. And taken out in conference as inappropriate.

Secretary SHALALA. So you voted for it, Mr. Bunning?

Mr. BUNNING. One time, yes, and I voted for the Balanced Budget Act as it came back out of conference when it was out of the bill, also.

Secretary RUBIN. That was with the $270 billion of Medicare cuts?

Mr. BUNNING. It didn't have any cuts.

I just repeated to you what was in the bill, an increase in spending on Medicare per beneficiary from $4,800 to about $7,100-plus. That is an increase. Even in Washington, DC, that is an increase, Mr. Rubin.

Secretary RUBIN. When you get into semantics, it doesn't matter much. What matters is what is happening in substance, but the fact is that after the cuts, beneficiaries would receive less.

Mr. BUNNING. What cuts are you talking about?

Secretary RUBIN. The cuts we were just referring to.

Mr. BUNNING. No, no, no. We are not talking about any cuts.

Secretary RUBIN. Let me put it differently, if I could, Mr. Bunning. After the $270 billion of something, that was in the bill, the recipients of health care services, 3 or 4 years out, would receive less in health care services than they would have without.

Mr. BUNNING. Not if they would have incorporated all the other changes that we had made, all the different program changes that we had in the Medicare Reform Act. No, it would not have.

Secretary RUBIN. With all due respect, Mr. Bunning, I don't——

Mr. BUNNING. Well, I mean, that is a difference of opinion, and that is why we are having such a terrible time determining how we are going to solve this dilemma in less than 4 years or maybe 5 years, depending on whose scenario you look at.

Secretary SHALALA. Congressman Bunning, let me go back to where we are trying to find some common ground.

Mr. BUNNING. We have enough common ground to settle this if the President of the United States would sit down and really determine what he wanted to do.

I can go chapter and verse with you. He didn't even submit any savings in the Medicare Program in his submission to the 1996 budget, not one penny.

Secretary RUBIN. That is not correct, Mr. Bunning.

Mr. BUNNING. That is absolutely correct if you go back and look at the budget.

Secretary RUBIN. I remember the budget. I was very much a part of putting it together.

He had $124 billion.

Mr. BUNNING. Absolutely not one penny. Go look at the budget. You must have worked on it.

Secretary RUBIN. I apologize. It was the June budget, the 1996 budget which was our June budget, at $124 billion; the 1997 budget, $124 billion which CBO marked at $116 billion, if I remember correctly.

Mr. BUNNING. It was never balanced, Mr. Rubin.

Mr. THOMAS. The gentleman's time has expired.

Secretary RUBIN. CBO scored the budget as balanced in the year 2002.

Mr. BUNNING. No, not even according to CBO.

Mr. THOMAS. The gentleman's time has expired.

Does the gentleman from Tennessee wish to inquire?

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

Thank you, Madam Secretary and Mr. Secretary. I can assure you, we will give you time to respond to some of these questions that are coming to you.

The Medicare trustees' report can only confirm what we already know, and that is the Republicans should accept the President's call to balance the budget and strengthen the Medicare Trust Fund. I think that is what we all are trying to accomplish, and that is what we would like to accomplish as Democrats on this Committee and in this Congress.

As CBO testified in its April 30 Hill testimony, Madam Secretary, the projected date of the insolvency should be viewed as not telling us anything that we don't already know, but confirming what we have known for some time about the insolvency of the trust fund.

The President has already acted to save the trust fund in the President's 1993 economic plan. It extended the trust fund by 3 years without a single Republican vote in the Congress.

The President's health care reform plan would have extended the life of the trust fund by 5 years had we acted up on that legislation.

The President's balanced budget guarantees the life of the trust fund for a decade, if I am not mistaken. Is that correct, Madam Secretary?

Secretary SHALALA. That is correct.

Mr. FORD. Also, I think the Medicare system had problems in the past. The Congress has acted responsibly to address these problems.

Madam Secretary, I think that the Chairman of this Committee, along with Mr. Thomas, submitted a letter to you dated February 6 in which it states the trust fund went broke in 1995. Did it go broke in 1995, Madam Secretary?

Secretary SHALALA. We had reserves in 1995.

Mr. FORD. You tried to explain this to someone else a minute ago and I think you were cut off, but I am picking it back up.

Secretary SHALALA. We obviously had reserves in 1995, and we used those reserves, but expenditures were exceeding income in that year.

Mr. FORD. Was money there to pay the bills?

Secretary SHALALA. There was money there to pay the bills.

Mr. FORD. So the trust fund did not go broke in 1995?

Secretary SHALALA. It did not go broke in 1995.

Mr. FORD. Madam Secretary, this Committee is charged with the responsibility to bring about trust fund solvency over the next 5 years according to what the trustees have issued in the report as late as yesterday afternoon, and it confirmed something that we have already known.

You all have been cut off several times by my good colleagues on the other side of the aisle. Secretary Rubin and Madam Secretary Shalala, your testimonies were good. How do we approach this and take the grid lock out of the gimmicks that the Republicans are talking about?

Senior citizens, as well as all taxpayers in America, want to see us bring about solvency to the Medicare Trust Fund. We as Democrats and I am sure there are some Republicans of good will on this Committee and in this Congress would like for that to happen as well. Do you have any suggestions?

You are being cut off by the Republicans. It is clear that they do not want to hear what the administration is saying and the trustees are saying. Do you need some time to tell us as Democrats and Republicans as to how we ought to approach this solvency problem?

Secretary SHALALA. Yes. Thank you, Congressman.

There are areas of commonality, although not necessarily specific proposals. In fact, I thought the home health care was a good one because both Republicans and Democrats have favored it over the years, and it seems to me that where there have been votes we could have clearly talked. Let me give some other examples.

Although the levels of savings that are estimated and the specific policies differ, both sides agree on some concepts. We agree that we need to strengthen certain elements of fraud and abuse controls. We agree that we need to restructure how Medicare pays managed care organizations. We agree that we need to modify the physician payment system and the structure for the revisions. We have agreed that we need to move the prospective payment systems for skilled nursing facilities and home health services, although we disagree on how we make the transition.

We agree in concept at least that we need to provide incentives to hospitals for efficiency by constraining cost updates for operating cost, reimbursing reasonable levels of capital cost, and that we need to reform the medical education payments.

There are areas of commonality, and it is hard for us to believe that if we strip out all of the controversial policy proposals where we disagree that we can't find enough savings to extend the trust fund for 10 years and then put in place that bipartisan advisory commission to deal with the longer range problems of the Medicare system.

We have listened carefully and reviewed carefully our proposals and the Republican proposals. We believe that we can find a set

of things that we agree on to deal with the short-term issues, and we are prepared to do that.

Mr. THOMAS. The gentleman's time has expired.

Mr. FORD. Thank you very much, Madam Secretary.

Thank you, Mr. Chairman.

Mr. THOMAS. Does the gentleman from New York wish to inquire?

Mr. HOUGHTON. Yes. Thank you, Mr. Chairman.

Mr. Secretary and Madam Secretary, it is good to have you here.

Let me just try to sort of recast the numbers as I understand them. We all understand there is a problem. We have got to do something about it.

The total numbers which the Republican side and the White House come up with are about the same. The only difference, big difference, is in terms of this $55 billion, which you take from part A into part B.

I am not clairvoyant. I can't make judgments for other people, but I would imagine in this discussion that that is going to be off the table. So the question, really, is twofold.

One, how far does the $73 billion in real cuts or real reductions and expenses get us, and what do the actuaries say about this?

Two, is there any way to squeeze out more money rather than transferring from one account into another in our attempt to save this thing? That is the whole focus that we are dealing with.

Secretary SHALALA. I think that is the whole point, Congressman Houghton, of sitting down and trying to see areas of agreement.

If you look at our specific policy proposals, they are different. If you look at the areas where we are trying to make changes, they are similar, which is the point I am making. We think that it is possible to sit down, to take off the table where we clearly can't agree or don't want to talk in the short term and to see if then we can find enough common ground savings to deal short term by adding another 5 years to the trust fund that would give us a decade. That will leave us plenty of time to put an advisory commission in place and to take a longer term look at the way the Medicare system is organized in this country. That is the only point we are making.

I brought up home health care, and I am sorry I stepped into it, because I saw votes on it, and I saw the Republicans using it during earlier years while I was here. Frankly, from a policy point of view, I could make an argument for doing the transfer because there is an underlying set of principles about how part A and part B have worked that justify taking part of home health care and putting it in part B.

I am not going to lay out all the issues on the table here. The point is, as we have looked carefully at these issues, we think we can sit down and find enough savings and extend the trust fund in the short run, and we believe we ought to do that now and deal with the long-run problems as part of an advisory Committee.

Mr. HOUGHTON. Sure.

Secretary Rubin, would you have any comment?

Secretary RUBIN. Mr. Houghton, I guess my view is the one that I expressed before to Mr. Thomas. The objective that we had was to extend the part A trust fund into the middle of the next decade.

We accomplished that. We want to do it without harming beneficiaries. We accomplished that. We want to do it in a manner that was prudent so that we didn't affect health care for the elderly. We did that. We want to have a balanced budget scored by CBO in 2002 when we accomplish that, and we have a letter from CBO to that effect. Mr. Bunning seemed to have some skepticism about that. So we accomplished all of our objectives.

I do think that that does lead to the point that Secretary Shalala said. I think the serious point, and I guess it was Mr. Stark perhaps who said it—I don't remember exactly. I think the serious point is what do we do about the long term. Having done all that, what do we do about the long term? There, nobody has solved that problem, and our recommendation, as Secretary Shalala said, is we should have a commission and we should have a real bipartisan process and get at that.

Mr. HOUGHTON. I understand that, and obviously, the long term is the critical issue, but the point is that as I look at the numbers, you have got $73 billion in real savings without shifting the $55 billion from one account into another.

I would think in advance of having this commission sit together that maybe the actuaries could come up and tell us is that enough, is that going to do the job.

Secretary RUBIN. Mr. Houghton, with all due respect, I know you used to be in business and so was I. I don't think that from a business sense that is the right question because I think it was $72 billion and not $73 billion, but it doesn't make any difference. It is not the $72 or $73 billion. It is the total program for part A, and the total program for part A was both the reduction and the shift.

Mr. HOUGHTON. Yes. I guess my feeling is that when you take a big chunk of your savings in order to resurrect this fund and just move it from one account into another without increasing at any case the premiums of those people who are going to be paying for part B, I just think it is unrealistic.

So what I am concentrating on is in the hard money and whether that is going to be enough.

Secretary RUBIN. With all due respect, this program would work. CBO scored this program as extending the exhaustion date to 2005. It is certainly their view. The actuaries actually scored it as extending the exhaustion date to 2006. So this will work within the timeframe that we are talking about. It does leave us, unfortunately, this very complicated, long-term problem, which I think many of the people who have commented today have commented upon.

Mr. HOUGHTON. Thanks. My time is up.

Mr. Chairman, thank you.

Mr. THOMAS. I thank the gentleman.

Does the gentleman from Louisiana wish to inquire?

Mr. MCCRERY. Yes. Thank you, Mr. Chairman.

I thank both of you for coming before us today and sharing with us your testimony and your responses to our questions.

First of all, I would just like to establish the three scenarios that are in the trustees' report. We have talked most about the intermediate scenario which provides that at the end of fiscal year 2001, there would be a $53 billion deficit in the trust fund. Under the

low-cost scenario or the best-case scenario that the trustees set out, at the end of fiscal year 2001, there would be a $5 billion shortfall. Then, under the high-cost scenario or the worst-case scenario, at the end of fiscal year 2000, there would be a $33 billion deficit or shortfall in the trust fund.

So, under any scenario, best case to worst case, we will be out of money in the trust fund if no changes are made by the end of fiscal year 2001, and under the worst case, we could, in fact, call into the red in the trust fund some time in calendar year 1999 which is only 3 years from now.

I know that both of you have said, and I agree, that we are going to do something. We must do something to avert the trust fund being without funds. Why? Because, unless you can tell me something that I am not aware of, if the part A trust fund does not have funds to pay hospital bills for Medicare patients, those bills don't get paid, do they? There is no authority that we have or you have to pay those bills outside moneys in the trust fund.

Secretary RUBIN. Yes. That is precisely why, as Secretary Shalala and I both said, I think one could say with a high level of confidence the action we take.

Mr. MCCRERY. Oh, I agree. I agree. I just want to establish in everybody's mind that that is the reason for the urgency. If this trust fund goes bankrupt, if there is no money in the trust fund, hospital bills cannot be paid under any existing authority. Is that correct?

Secretary SHALALA. Or they will be paid only with the income coming in, as I explained——

Mr. MCCRERY. Right.

Secretary SHALALA [continuing]. Which means all of the bills wouldn't be paid, but that is unacceptable, as you have said and as we have said.

Mr. MCCRERY. So we all acknowledge that this is an urgent problem, and I appreciate the administration coming forward with a plan that does solve the immediate problem.

So we are really talking about a matter of degree here as to how we approach the short-term solution and how that short-term solution puts us in shape to address the long-term problem. We haven't talked much about the long-term problem here today because, obviously, our focus right now is getting out of this trap that we are in on the trust fund, but the long-term problem will be, by all accounts that I have read, even more difficult to solve than the problem we are talking about here today because the age demographics of this country are such that around the year 2010, 2012, the baby boom generation, which is the biggest part of our population, will start to retire.

So we are really, I think, discussing or we should be discussing what is the best short-term solution not only to get us through 2006 or 2001, but what can we do now to put us in the best shape to solve that long-term problem.

Obviously, we have a disagreement between the Republicans in Congress and some Democrats, I would submit, and the administration because we have, in fact, called for a much higher level of savings or cuts, however you want to phrase it, in the Medicare part A program than the administration.

I, for one, would not like to put all of our eggs in the commission basket and hope that there is something going to drop down from the sky and give us some easy solution. I don't think that is going to happen. I have zero faith in that.

I have faith in the commission coming up with some solutions, but they are not going to be easy.

So I would rather do some things now that will put us in better shape then to solve the bigger problems of the baby boomer's retirement.

I just wish that we could sit down outside of the election atmosphere and decide what is best. I think if we were to do that—and there are some Democrats in this Congress who have sat down with us and have arrived at a plan that is more than the administration suggests. I wish we could come up with a plan that we could all agree on and get it done.

I would just like for your comments on my analysis of where we are and where we should go.

Secretary SHALALA. Mr. McCrery, I think that the urgency of dealing with the short-term issue has brought us to the conclusion that we ought to see where there is common ground and get the additional 5 years that will give us 10 years of solvency and then set up an advisory committee.

We specifically called it "advisory" because it is also our conclusion that it will take political leaders of both parties to devise the long-term solution, not simply a bunch of experts that you are going to adopt their plans. To have that thoughtful discussion will take some time. So we have recommended a short-term solution.

Anything beyond that, looking at what happened over the last year, would make me very nervous because of how the private health care system impacted Medicare growth rates, which is a whole different discussion. But the discussion does lead me to believe that we need to take a very thoughtful look at the extent to which Medicare and Medicaid underpins the entire health infrastructure in this country, and when the private sector is squeezing down, how much that impacts back on Medicare. So I would want to be extremely careful as we edged our way into much stronger reforms.

Mr. THOMAS. The gentleman's time has expired.

Does the gentleman from California, Mr. Matsui, wish to inquire?

Mr. MATSUI. Thank you, Mr. Chairman.

I want to thank both Mr. Rubin and Secretary Shalala for being here, and I really appreciate the objectivity of the report. It has always been objective, ever since 1970 when we began having these actuarial reports from the trustees.

I would like to just clarify perhaps what is maybe a misunderstanding. In terms of the increase, people talk about while a cut is really not a cut, it is an increase, and so, therefore, we are using misnomers in Washington, DC. That is not true. We should look upon this issue as a per capita issue.

We are spending today, 1996, $4,700 per year for health care benefits for the average senior citizen. In the private sector, we are spending $4,000 per year for the average person in America. So we are spending $700 more per year for the average senior today, 1996.

Mr. Bunning raised in his questions, in the year 2002, 6 years from now, we will be spending $7,400 for each senior citizen, approximately $2,700 more than we do today. So he says that is an increase, and that is an increase.

The only irony about this is that the private sector actuaries and insurance companies say that we are going to be spending $8,500 for the average American. So we are going to be spending approximately $900 less for somebody 85 than we would for somebody 35, and that is the number that we really have to look at.

What we are doing under the Republican proposal is actually spending less money projected 6 years from now for the average senior citizen than we will for somebody who is healthy and in the work force, and that is because in the Republican proposal, inflation was only 5.7 percent per year for Medicare. Whereas, in the private sector, it is going to be 7.4 percent per year for the average worker in America, and that is why the seniors should be concerned about the proposal that the Republicans presented because what is going to happen is they are going to have third-rate health care coverage in America should that happen.

Let me just make one further observation, if I may, as well. This problem will be fixed. I think both Secretaries said we are going to fix this problem. It is a short-term problem. I think Mr. McCrery talked about the long-term problem. We are going to have to set up a commission in all three. The administration, the Democratic proposal and Republican proposal suggested a commission for the year 2010 and beyond because that is when the baby boom population occurs, and that is when we are really going to have to solve this problem.

What we are talking about now is a short-term solution. I have been on this Committee now for 16 years. In 1982, for example, we projected that the insolvency for Medicare would occur in 1987, 5 years. In 1983, we had a bipartisan group of Members. It was both Mr. Jacobs, and I know that Mr. Stark was working on it, and Mr. Gradison, and if you recall then, we passed the DRGs and made massive changes in the reimbursement system. We got to the point, then, when we had a 13-year solvency as a result of that.

We have had about seven or eight different reconciliation bills in which we have had bipartisan support in making sure that we have had short-term solvency of this particular problem. So there is no reason why we can't solve this problem. We shouldn't mislead the public and start saying, "Chicken Little, the sky is falling," because it is not going to fall. We are going to solve this problem.

We have had predictions of a 5-year solvency period, a 6-year solvency period, and a 7-year solvency period. In fact, President Clinton when he took office, we projected in 1993 the solvency would end in the year 1999. Actually, in 1993 when we passed the reconciliation bill, we picked up 2 years. So we have been aware of this problem. It is not anything new. Nobody has been hiding this particular issue.

So let us get on to solving the problem. Let us try to work in a bipartisan fashion if we possibly can. I know it is an election year. It is very difficult, but we owe it to the seniors and the American public to lower the decibel level on this report. It is really unnecessary to make more out of it than it really is.

I yield now to Mr. Stark.

Mr. STARK. I thank the gentleman for yielding.

I just wanted to ask the Secretary very quickly, the Republican Chairman of the Defense Authorization Committee said that we are going to increase the dollars that we give them in the budget, but adjusted for inflation, it will be a decline or a cut.

Isn't that the same thing that we are talking about in Medicare? We are increasing the dollars, but with inflation, it is a decline or a cut.

If in defense it is a cut, how can it be an increase in Medicare? We are doing exactly the same thing. Do I miss something in the way that budgets are built, Mr. Secretary?

Secretary RUBIN. Mr. Stark, leaving aside semantics, I think what we wanted to look at is what Mr. Matsui was suggesting which is what are the services that are going to be delivered in some outyear, and if you reduce expenditures on an inflation-adjusted basis, then you are going to be reducing the services that are delivered, and you can call it a reduction, a cut, or anything else. That is what your Defense Committee Chairman was, I suppose, referring to, and it is really the frame of reference that at least I have used in referring to the Medicare reductions as cuts.

Mr. STARK. Thank you.

Thank you, Mr. Chairman.

Chairman ARCHER. The gentleman's time has expired.

Madam Secretary and Mr. Secretary, is it possible that we might come together in whatever solution that we can come up with, hopefully on a bipartisan basis? Could we have an initial agreement that we will not shift the responsibility for paying for what are some of the part A trust fund obligations in today's law over into the General Treasury? Even though budgetarily it offsets, it offsets budgetarily in the strict sense of the word. However, it does not recognize the fact that whatever we do to the general fund, which, Mr. Secretary, you have the responsibility for, has not exacerbated the problems of that fund.

Part of the problem today, I think, with the way our budgeting works is that the moneys that are in the trust funds mask the true operating deficit.

Secretary SHALALA. Mr. Chairman?

Chairman ARCHER. The true operating deficit is really what we as a Nation need to be concerned about in the long run. If we simply move obligations and responsibilities out of the trust fund which are currently being paid for out of the trust fund, we say now we are going to pay for those out of the General Treasury. We have not done anything about the operating deficit. We have increased the operating deficit in the future for this country.

So it seems to me that in good faith that both of us should enter into an agreement that we are not going to enter into that sort of financial gimmickry and try to save the trust fund without simply offloading responsibilities from it onto the General Treasury. Could we have that kind of agreement between us going in?

Secretary SHALALA. I think the answer is no. The agreement that we would like to have going in is that we wouldn't take anything off the table until we get to the table.

The point I would like to make, Chairman Archer, since we don't have time to do this here is we would like to lay out for you the underlying policy arguments because home health started very small and then evolved into something that is quite different and that may not be appropriate for part A. We would like to lay out the underlying policy argument that we made to back up the President's recommendation.

So, to be fair, we want to go to the table, but we are not prepared to take anything off of the table until we get there.

Chairman ARCHER. The problem is not with the question of how we handle home health care in a better way. The problem is that irrespective of how it is handled, it has got to be paid for, and simply taking that payment responsibility out of the trust fund and putting it on the General Treasury does not solve the problem.

Secretary SHALALA. But if we can produce savings that get the trust fund out another 5 years so that we have a decade while we are looking at what kind of thoughtful reforms we want to put into the Medicare system, I simply don't want to argue about what we should come to the table with once we get there, Chairman Archer.

Chairman ARCHER. This is not to say what reforms should not be adopted in order to be able to have more value out of the moneys that are spent for health care for senior citizens.

Secretary SHALALA. Yes.

Chairman ARCHER. This is not to prejudge any of that. It is just to imply that we ought to agree that we are not going to embrace a solution which appears to save the trust fund, but increases the operating deficit of this country, and that is what troubles me.

We would both agree to that, in whatever the ultimate plan was, that that would not be the way that we would do it.

Secretary SHALALA. One of the things that we have done, also, in part A is made some recommendations on savings. That is another reason why we need to get to the table and to lay out what we are trying to do. Doing some reordering of how the Medicare system is financed, if we could get some short-term agreement, is perfectly appropriate, but I think what we would like to do is bring our proposals to the table and you bring your proposals to the table and let us see what the underlying policy arguments are. I think that is only fair, but let us get to the table.

Chairman ARCHER. I appreciate the indulgence of the Committee in letting the Chair enter into this line of inquiry.

Mr. Camp.

Mr. CAMP. Thank you, Mr. Chairman.

I just have a couple of points, and then I would like to ask you a question, Secretary Shalala.

It is clear that Medicare is going broke faster than was expected and that that trend seems to be getting worse every day. In 1995, the trustees projected a surplus of $5 billion in the year 2002, and today we are learning that Medicare will have a deficit of $101 billion in that same year. I think that $106 billion loss in 1 year is a startling reversal of fortune for anybody looking at this problem.

Second, Medicare's last year may be just 3 years away, in 1999, and the concern is that the trustees' report was in error last year. This year's report, even optimistically, assumes bankruptcy in the

year 2001. The concern is there is no guarantee that the trustees may not have to go back and redo their assessment and projections.

I believe the President's proposal should reflect this deterioration in the trust fund, and I agree with Mr. Matsui, there is no reason we shouldn't solve the problem without games and without tax increases, and we should work together because we do need to find common ground, but I think it is very important that we not include games or tax increases in that proposal.

Last, I think the public, and particularly our senior citizens, need to know the truth, and I would like to see this report, and echo others' concerns that this report be mailed to every senior citizen in the country, but my question is this. In the Supplementary Medical Insurance Trust Fund report, the trustees note a couple of concerns.

One is that the program costs have been growing faster than GDP, and they expect that trend to continue under present law, and second, the concern that the general revenue fund will fund an ever-larger share of part B spending as the premium share declines, and it is estimated to fall below 25 percent in 1998. I realize that part of the President's proposal is to raise part B premiums, but how do we reconcile that concern over the higher general revenue financing cost in part B and at the same time propose to shift $55 billion more onto the taxpayers under the home health transfer?

Secretary SHALALA. Let me answer that question this way. First of all, we have proposed a long-term process for looking at both part A and part B of the Medicare Program because there are, in fact, changes going on within the system as the entire health care system in the United States changes.

Second, the shift, as I have indicated, has an underlying policy justification. The President does not want to raise the premiums.

Medicare recipients on average have incomes of $11,000 a year. Their drugs are not covered by the Medicare Program. They are increasingly pushed in terms of their own fixed incomes, and we are very reluctant to just shift costs onto relatively low-income recipients. This is the reason why we should put a short-term solution in place and then consider longer term at what the mix is between the payroll tax and trust funds and what the general fund ought to account for and what we can do to slow down the growth of part of the system.

I have laid out areas of commonality in which I think conceptually we have some agreements regarding proposals to slow down growth, and I just think we can get there in a short-term proposal. It will certainly be somewhat controversial, I am sure, to providers and hospitals, but if we put it together, we can together all make the justifications together.

Mr. CAMP. I appreciate that answer.

Secretary SHALALA. Sorry. I am allergic to Washington.

Mr. CAMP. I appreciate that answer.

The concern is the cost will have to come from somewhere because you do acknowledge that moving $55 billion over will put an added burden on part B. Premiums are a smaller amount of funding for part B. So it will have to come from general revenue or somewhere else.

Secretary SHALALA. Simultaneously, we are also doing some things to slow down some of the growth in part B, plus a set of other reforms, including waste, fraud, and abuse reforms, getting a hold of some of the growth in home health care and skilled nursing facilities. I mean, you have to do a number of things.

I am convinced that we can do this short-term package to extend the life of the trust fund into the next decade. The President has laid out his proposals. We are prepared to go to the table to do it.

Mr. CAMP. Thank you.

Thank you, Mr. Chairman.

Mr. THOMAS [presiding]. Does the gentleman from Georgia wish to inquire?

Mr. COLLINS. Thank you, Mr. Chairman. I am going to be brief because I don't believe in beating a dead horse.

I do know both of the Secretaries. The greatest challenge that we face as a Nation, as well as the representatives of the people of this country, is the deficit spending that occurs here in this town daily, and I think the biggest threat that this Nation faces as far as its democracy is the national debt that keeps accruing also on a daily basis.

We are speaking of 37 million people, approximately, who are insured under Medicare, and we are all very concerned about those 37 million people and their health insurance, but we also have to be concerned about the 98 million people who pay the bill, and that is the working people of this country who actually have a net tax bill.

It doesn't matter where you shift the cost or the funding, those same people pay the bill. It doesn't matter where you shift the tax or what entity you put it on or, what you call it, a user fee or an excise tax. Those same 98 million people pay the bill. They pay the bill whether it is for Medicare or welfare or for Medicaid or defense, you name it.

They also are paying the bills at home for their families to provide the same necessities and benefits that each one of those entitlement programs provide for those 37 million under the Medicare, plus millions who are under the welfare and Medicaid, and I think we need to think about those people.

We have a plan that is offered by you and the administration that will rescue—rescue Medicare, but it won't save it. I am not saying that the plan that the Republicans are offering will save it. I think we must look at how we save the program as well as we save the whole existence of our democracy.

I am pleased to hear you say that you are not going to take anything off of the table until we get to the table because, under that same interpretation, I read that you are not really objecting to anything that we are bringing to the table until we get it to the table for a full discussion. I think that is good.

I was frustrated and disappointed that the President vetoed the previous balanced budget which included the Medicare Preservation Act, but in further analyzing it and thinking about it, and I have told people back home, I don't think it was all bad because, what it did, it was continuing the debate upon what we are talking about and the needs and the challenges and the threat that this country faces.

I hope you do keep an open mind when those that represent the Congress and the people come to the table to work with you and the other members of the administration in objectively looking at all areas of change that will further rescue or save Medicare, all policy changes.

You may say that you won't and don't like certain changes today and policy that may, as you say, threaten certain areas. We wouldn't offer that policy change if we thought it threatened anyone. We offer it out of good intent, the same as the President offers his proposal, out of good intent. So let us do keep an open mind.

Let us do work toward the solvency of Medicare and prevent it from going bankrupt and not just attempt to bring it out in the water to rescue it. It is drowning in red ink. Once we get it on the boat, we have got to get a resurrection.

Thank you for your time.

Thank you, Mr. Chairman.

Secretary SHALALA. Thank you, Congressman Collins. Thank you for your thoughtful remarks.

I repeat, we won't take anything off of the table until we get to the table, and I don't expect your party to do any different. We do have open minds, and I do see a compromise there somewhere.

Secretary RUBIN. Could I just add one thing to that? As Secretary Shalala said, we do have open minds, and we are committed to solving the problem. I think there are certain structural proposals that are contained in the congressional majority's plan, MSAs, for example, and balanced billing, which we do feel are not in the best interest of the health care program.

Mr. COLLINS. Let us keep in mind, too——

Mr. THOMAS. The gentleman's time——

Mr. COLLINS. Let us keep in mind, too, those 98 million people who are paying the bill.

Secretary RUBIN. Mr. Collins, I think it would be fair to say that there is nobody who has done more, probably in decades, to achieve fiscal responsibility in this country than the President with the 1993 deficit program.

Mr. THOMAS. The gentleman's time has expired.

Does the gentlewoman from Connecticut wish to inquire?

Mrs. KENNELLY. Thank you, Mr. Chairman.

Mr. Chairman, earlier Mr. Stark said he felt like he was in "Groundhog Day," a Bill Murray movie, déjà vu, and I feel exactly like he did. There is only one difference, Mr. Chairman, and that is your party is now in the majority.

We had to take that tough vote in 1993, which I think all of the Members of this body, the Ways and Means Committee, understand. We can all talk or be very tightlipped or be very serious about this. To fix this problem, it is going to take some very hard decisions by all of us.

I voted in 1993 to save Medicare. It was a very tough vote. I have many constituents that still don't like my vote, but we had to do it to save Medicare, and once again, we are all going to have to do it because we are all on the same side.

The other thing I was thinking of is the song, "Say It Isn't So," because all I have heard this morning was how you cannot take

funding for home health care from part A and transfer it into part B.

Mr. Chairman, for the record, on October 19, there was a vote to move home health care services beyond 165 days from part A to part B. Every member of the majority voted for that. In other words, every Republican on this Committee voted for it.

On October 26, there was a vote to move home health services beyond 150 days from part A to part B. Every Member of this body who is a Republican also voted for that legislation.

So let us not say it can't be so. We are trying to find a solution to the problem, but don't ask Donna Shalala, our Secretary of HHS, to take that off the table after you have voted for it twice.

It is on the table. There is a lot of money there, and we have to look at it.

I want to use the remainder of my time, Madam Secretary, to have you once again explain your thinking behind moving home health care, part of it, not all of it, part of it, from part A to part B.

Secretary SHALALA. The home health care benefit was originally designed like the skilled nursing home benefit, to provide short-term recuperative post-acute care services to people after they were discharged from the hospital. It has now evolved.

In fact, the benefit was originally only available to beneficiaries who were discharged from a hospital following a minimum 3-day stay, and the first 100 visits were financed under part A of Medicare.

If the beneficiaries exhausted all of the part A visits and carried part B insurance, they are eligible to receive additional visits financed under part B, under our proposal, but the point is that we started out with a program that was simply going to take care of people for a relatively small number of days after they got out of the hospital. It evolved into a comprehensive, long-term program that many of the Members of this Committee have spoken to me about over the years, to allow people to stay in their homes who have chronic illnesses.

A lot of the growth is in the long-term care part of the home health benefit. That part, conceptually and the way in which the Medicare Program was designed, ought to be in part B. The more emergency home health care ought to stay in part A. For this reason, our bill transfers home health care costs after 100 days, the short-term part, transfers the long-term part, plus other non-hospital-related home health visits to part B.

This means that the remaining part A benefit is consistent with the skilled nursing home benefit in part A in which we pay for 100 days of skilled nursing home benefits after a hospital stay.

So, conceptually, it makes all sorts of sense. It is the way the program was originally designed. It evolved into something else, and there is a clear policy justification for moving it. That is why I believe that this proposal came up on the Republican side and was voted for twice favorably by House Republicans. It makes all sorts of sense. We ought not to take it off the table, and we ought to discuss it as part of this short-term discussion.

Mr. THOMAS. Does the gentleman from Ohio wish to inquire?

Mr. PORTMAN. I thank the Chairman. I missed Bill Murray and "Groundhog Day," but it does seem like déjà vu all over again. It is the third time since I have been on the Committee that you have been before us.

Mr. THOMAS. That is Yogi Berra.

Mr. PORTMAN. Yogi Berra, not Bill Murray.

I have a couple of quick questions, and I do have a number of questions. I will try to keep my questions short so we can get the answers.

The concern you raised earlier in response to Mr. McCrery's question regarding the private health care market intrigues me. From what I heard you say, Secretary Shalala, you would be concerned about any long-term changes in Medicare and getting into some of the fundamentals of Medicare because you would want to be, as I remember, extremely careful because the health care system is being, in a sense, supported by Medicare based on some of the recent data you have seen.

Can you expand on that briefly?

Secretary SHALALA. Yes. We are trying to figure out what the explanation is for this more rapid growth, beyond what our actuaries assumed, and there is some indication home health care visits have grown more rapidly. The health care system is evolving into one in which there is a lot of activity outside of the hospitals.

Our bills are being paid faster. Some of that is reinvention, and that is, instead of paying our bills in 35 days, which is what it was when we started the administration, we are now paying our bills in 30 days.

We streamlined the process of bill paying which means the hospitals are coming in faster to get their bills paid, and using more electronic systems and other kinds of things to do that.

What does this mean? If you go out and talk to the hospital administrators, we are a very good payer. We are not getting the deep discounts that corporations are negotiating with hospitals and with other kinds of providers. But, getting our money faster helps to keep the hospital infrastructure clearly out there providing care.

Mr. PORTMAN. Yes.

Secretary SHALALA. The hospital system in this country, and the entire health care system is going through rapidly changed economics, with the private sector negotiating very deep discounts. We would like to get some of those discounts and slow down some of our growth.

What I am saying is we have got to be extremely careful that what we are not seeing here is some theoretical cost shifting to Medicare.

Mr. PORTMAN. I couldn't agree with you more.

Secretary SHALALA. I want to be careful as we do the long-term proposals to make sure we understand what is going on.

Mr. PORTMAN. I may have misread what you said earlier, but what I inferred was that you think, therefore, we should be very careful about making changes in the program for fear that we could, in a sense, have Medicare catch up with the private health care market. I think that is precisely what we need to do.

Secretary SHALALA. And I agree with that.

Mr. PORTMAN. I think cost shifting is a problem. It is all the more reason to move ahead much more rapidly.

I think the numbers from the trustees' report and so on are probably understated for that reason alone, and I think that should be an impetus to all of us to move forward with fundamental change that at least tries to bring Medicare into this century, if not the 21st.

Let me just keep going because I have so many questions, and I would like to get your input.

We talked a lot about short-term and long-term solutions. We talked about the magnitude of the problem. Just very briefly, if you look at the intermediate projections, which have proven to be more optimistic than the actual projections, we are talking about a $375 billion deficit by the year 2005. The year 2010, as you have indicated, is when my generation starts to retire, and we have the demographic shift with fewer workers paying into the system and a lot more people getting benefits.

What are the numbers in 2010 based on the intermediate projections? Do you have those?

If you don't have those right now, we can get those for the record. I would guess they would be well over 1 trillion.

Secretary SHALALA. I will provide it for the record.

[The following was subsequently received:]

The projected deficit in the Medicare Hospital Insurance Trust Fund at the end of 2010 is $1.2 trillion.

Secretary SHALALA. The point is that we have got to act before 2010.

Mr. PORTMAN. Precisely.

Secretary SHALALA. We know that, and that is my point about the way in which we do our payment system and the kind of fundamental changes that we need to make in the Medicare system.

Mr. PORTMAN. Exactly.

I think the point we are making with regard to shifting home health from part A to part B, which I don't think is a good idea unless it is done in the full light of day, is the fact that you are shifting, in essence, the home health responsibility over to the taxpayer which either means more deficit spending or higher taxes.

In deference to my friend, Bob Matsui, who is now gone, who went through this with Bill Gradison, my predecessor, we have a different environment now. We have a $5 trillion debt we are dealing with. We have a situation where we don't have the latitude to do that kind of shifting, at least without doing it in a very deliberate fashion.

Many on the other side are saying we are acting like Chicken Little, it is not a big deal, we can solve it. Mr. Stark talks about us cutting below inflation which is not true based on the latest HCFA study. Health care costs are increasing nationally by about 4 percent or below. Medicare costs are increasing as you know, by about 10 percent. Our proposal increased Medicare spending by about 7 percent per year, which was consistent with what the President and Mrs. Clinton talked about in 1993.

So this kind of conversation where, in essence, the other side of the aisle is saying take it easy, this is not a big problem, we don't need to worry about it. I think that what you are saying with re-

gard to the private health care market and what we all recognize, which is the looming debt and a deficit problem that is bigger than all of this, we are in a different world, a different era, and we cannot take it easy. We have to solve this problem both for the short term and long term.

I thank the Chairman.

Mr. THOMAS. The gentleman's time has expired, and I know the Secretaries wish to get out by around noon. We have a vote on right now. So, if we can all honor the lights, more Members will have an opportunity, and if someone feels they aren't totally compelled to ask a question, the Chair would appreciate that as well. So we will continue through this vote, if you will allow us, to try to meet your timeframe.

Does the gentleman from Pennsylvania wish to inquire?

Mr. ENGLISH. Thank you, Mr. Chairman. I appreciate this opportunity.

Secretary Rubin and Secretary Shalala, thank you for being here.

I have listened to some of my colleagues. One of them that I respect in particular on this panel suggests that we lower the decibel level on the problems in Medicare, and I have to tell you, I could not disagree with him more.

I think this is a crisis. Having been a city finance officer at a time when our city was having severe financial problems, I don't believe that the problems that you have outlined in your report and Medicare can be swept under the rug.

I appreciate the fact that in the specifics of your report, you suggested we do need to take immediate action, and I think this is all the more important to recognize since some in Congress seem to be in denial about the dimensions of this problem.

Secretary Rubin, if you were back on Wall Street and this were a private entity we were talking about, I happen to think that it would be very close to receivership, and for that reason, I think we do need to reduce the level of partisanship in this debate and there may be a vehicle for doing that.

I suspect both of you are aware that last year, about 10 months ago, I introduced a bill, the Commission to Save Medicare Act, which would create a BRAC-like commission on a permanent basis to review the Medicare Program and to suggest necessary revisions over time to preserve the program.

I would like to encourage both of you to look at this bill and to take it back to the President. You have made a general reference to a commission in your report, and I would ask you to go beyond that and suggest a permanent commission that we need and one that can act, moving beyond the traditional jurisdictions of this body, to send recommendations directly to the floor.

May I ask you, have either of you developed a position on this BRAC commission approach which has been endorsed by the Hospital Association?

Secretary SHALALA. We don't have an official position.

Let me say that the advisory group that we have proposed has no details to it, and as I indicated to Chairman Archer and Mr. Thomas, we did that on purpose, so that we could sit down and talk about the appropriate elements.

I also believe that none of us should have any cover on this issue. We know what the problems are. We ought to get the best advice we can possibly get in a bipartisan manner, and bipartisan political leadership ought to come together to put the solution together.

So we would be happy to look at your bill. We have not written in any details on purpose, as part of our pledge for bipartisanship.

Mr. ENGLISH. And I appreciate that.

Let me also say that the purpose of this commission would not be to create cover, but to create a truly nonpartisan process. This is a bipartisan bill to create a nonpartisan reform process and to try to get beyond the rhetoric which, unfortunately, has even been in evidence today.

We need to establish some sort of entity above the fray to give us objective advice.

Secretary SHALALA. As you know, Social Security has that, and when Social Security was separated from the Department, a commission went with Social Security which meets about four times a year, but we didn't have similar commission legislation for the Medicare.

Mr. ENGLISH. My only suggestion beyond that is any commission has to have teeth and has to have a real institutional role and be more than just an advisory commission.

I will be writing to the President and asking him to endorse this commission. Time is very much of the essence, and we appreciate your being here. We look for an opportunity to lower the partisan rhetoric.

Thank you very much.

Secretary SHALALA. Thank you, Congressman English.

Mr. THOMAS. I thank the gentleman.

No Democrat having returned from voting, I will recognize the gentleman from Nevada, Mr. Ensign.

Mr. ENSIGN. Thank you, Mr. Chairman.

I want to talk a little bit about the numbers. In the numbers that you were projecting, no recession was predicted during that time, correct? A recession would affect payments into the system.

Secretary SHALALA. No. Remember, we are on a very, very tight period.

Mr. ENSIGN. I am just making a point.

Secretary RUBIN. I think it depends which numbers you are talking about. My recollection is it is in the report someplace. I think in the worst-case basis, there actually was.

Mr. ENSIGN. But not in the intermediary.

Secretary SHALALA. Not in the intermediary.

Secretary RUBIN. I believe, not in the intermediary.

Mr. ENSIGN. The reason I bring that up is just yesterday we marked up our welfare reform bill, and Mr. Levin from Michigan pointed out that in a very, very long period of time, if we go out all the way to 2001 without a recession, he would be surprised by that.

The reason I bring that up is 2001, without a recession built in there, is probably the farthest we are going to get. In other words, the worst-case scenario may be if we get a recession, and that is probably the way it is going to be.

Secretary RUBIN. I don't want to swear to this, but my recollection of the numbers is to get to the worst case, you have to have some pretty severe recessionary conditions. That is my recollection, but you look at the assumptions and see what it really is.

Mr. ENSIGN. I am just saying, if a recession hits that things are even worse.

Secretary RUBIN. It will move you.

Mr. ENSIGN. I agree with you, and I appreciate the fact that you have both come here today to say that we absolutely need to address this problem now.

Secretary Shalala, I just wanted to mention one thing to you.

Secretary SHALALA. Congressman Ensign, in the worst-case scenario, I am told that there are two back-to-back recessions that would have to occur for us to get to the year 2000.

Mr. ENSIGN. OK, good.

Actually, this has to do with acting short term on your part, but I think that it is actually going to be one of the answers, long term, to our senior health care problems. It has to do with the things that you are granting right now, and that is the waivers from the SHMO–2s, the social HMO–2s.

I have been in contact with Dr. Vladeck. In my area, we have one of the demonstration projects that he would have the waiver granted by July 1. I would encourage that that be done.

From what I understand from the company, it is not happening by that July 1 promise date, and I would just encourage you to check on that because I think that the social HMO–2s are really one of the long-term answers to senior health care because most of the problem is spent at the end of a person's life, most of the time when that person wouldn't want that money to be spent, and the social HMOs are the only plan that address this. None of the other plans address this. That is the fundamental problem to our financing of Medicare and Medicaid. Whereas, innovative programs, like the social HMO–2s are the only things that are really taking a look at that.

Having said that, in our working together, trying to work together here and sit down at the table and work out our differences, besides medical savings accounts, which we know that you have a severe problem with, and medical malpractice reforms—I know the administration has severe problems with malpractice reforms, correct?

Besides those two things which are pretty obvious, what other things in our proposal—forget the numbers, but what other policy changes in our proposal does the administration have severe problems with?

Secretary SHALALA. Choice.

Mr. ENSIGN. OK.

Secretary SHALALA. Those that drafted your proposal, probably have assured you that a Medicare recipient coming out of a fee-for-service and a Medigap plan would be able to go into an HMO. But what if they didn't like the HMO and after 1 year wanted to go back into the program they were in before? Under your plan, they can't do that. There is not real choice.

Mr. ENSIGN. I beg to differ. They can. After 1 year, they can go back.

Secretary SHALALA. But they can't go back at the same price if they are ill at all because the Medigap plan problem has not been fixed in your plan.

Let me explain that to you. Medigap is only available in a window for 6 months when you first enter the Medicare Program——

Mr. ENSIGN. I am almost out of time. Let me ask you this as you are finishing. Wouldn't that cause risk, basically the aversion to healthy people when you are in, when it benefits you, and then if you have got to be able to switch back at the end of that year——

Secretary SHALALA. Real choice means that you can go back and forth between plans. We have fixed that in our plan. You have not fixed it in your plan—for the millions of people who have no experience in HMOs.

Second, the issue of balanced billing, that you lay out some plans in which people can pay on top.

Third, the issue of what the premium is going to be, we see Medicare recipients as they get older getting poorer and having more medical needs. We would want to be extremely careful what kind of burdens we shift onto them, whether it is a new doctor or a hospital being able to charge them more on top of their plan or them getting into an HMO and wanting to get back into their fee-for-service or an increase. Those are the kinds of concerns that we have about the plans, all of which we are happy to talk to you about, but the concerns are pretty fundamental.

These are different, though, than the kind of savings discussions we can have because conceptually I think there are areas where we could reach agreement.

We don't have to do those other kinds of things to take care of the trust fund, but only to resolve the short-term trust fund issue.

Mr. ENSIGN. My time has expired, and thank you, Mr. Chairman.

I would just like to end with, I think both sides have to be willing to not be uncompromising when we sit at the table.

Thank you.

Mr. NUSSLE [presiding]. The gentleman from Michigan.

Mr. LEVIN. Thank you, Mr. Chairman.

There has been discussion, which you have helped to clarify, about the nature of this problem. There is a problem. You acknowledge it as trustees.

As has been pointed out, this isn't the first time that there has been a problem with the trust fund or with Medicare expenditures. Indeed, I was looking over a list, and some of these years have already been referred to, of when this Congress acted 1980, 1981, 1982, 1983, 1985, 1987, 1989, 1990, 1991, and 1993.

So, in the last 15 years, in the majority of years this Congress has had to act, until now or at least until 1993, we did show in a bipartisan basis, and hopefully, we may now do that.

I think what may convince the majority to come to the table is this. They have used the report to highlight a problem, but I don't think by whipping up the problem they are going to persuade a public that doesn't like their medicine.

When there is an ailment, the worse you make it, you are in a predicament if the medicine won't work or if it is rejected. So, hopefully, people will now be willing to come to the table in a bipartisan basis.

There has been a discussion here about the taxes that we imposed a few years ago. It is interesting in the Republican plan that none of those taxes relating to Medicare are touched. You accept them.

So I think you ought to stop talking about the taxes that were included as one portion, but not the major portion, of our action of a few years ago.

I would just like to ask the two of you, point blank, you said you want everything on the table. Is the administration ready to come to the table without conditions to discuss with Congress an approach to the present problems facing Medicare as well as the long-term problem?

I think, maybe, I will ask you to give a yes or no on that. Are you willing to come to the table?

Secretary SHALALA. We certainly are willing to come to the table. Our only condition is the condition the President started with, and that is at the end of the day, quality health care has to be available for the elderly and for those disabled citizens that are served by the Medicare Program. Going to the table, that is the single assumption that we go in with.

Mr. LEVIN. Thank you.

Thank you, Mr. Chairman.

Mr. NUSSLE. The gentleman from Texas will inquire.

Mr. LAUGHLIN. Thank you, Mr. Chairman, Madam Secretary and Mr. Secretary.

I want to shift a little bit from that very important group of American citizens we have been talking about from the start of this hearing until this point, and that is the senior citizen because you can well tell I am closer to that group than I am the group I want to talk about, and that is the young worker who is fresh out of college or fresh out of high school that is going to enter the work force.

I want to make an observation to you before I ask my question. I represent the most ethnically diverse district in my State, and perhaps the Nation, and certainly one of the most diverse economic districts in my State. So I would say it would rival the Nation.

Over the past year when I have appeared, and I do it frequently, before high school groups, the question about Medicare has come up, and always the topic of taxes with that.

After giving perhaps a partisan viewpoint—last year, as you know, I was a member of both parties. I feel I can somewhat present both parties' perspective. I have asked this ethnically and economically diverse group I represent how many are in favor of having their taxes increased to preserve Medicare for their grandparents who they love dearly and eventually their parents whom they love on some days. Having been a parent, I can vouch for that part.

You know, to this day, not one hand has gone up, and it concerns me because you look at the demographics of the workers per retiree, and I recall seeing in USA Today some months ago—and I want to say the number of workers. Secretary Rubin, since you come from Wall Street, you may know better than I, but my memory is that there will be about 300 workers per retiree around the turn of this century.

We know from the Congressional Research Service that in 1965 when this Medicare benefit was given to us by Congress and the President, there were 4.4 workers per retiree. Today there is 3.9, and we are told in the trustees' report that by the year 2030, there is going to be 2.2 workers per retiree.

How are we going to address this problem from the viewpoint, not of the seniors whom we have worried about all this hearing, but for those who are going to pay? In a few years, I will be in that crowd of seniors. I hope the good Lord lets me do that.

How are we going to address the concern of this crowd that is going to be in the work force, that at least in my region of the country have said they don't want to pay any more taxes toward this system? We are shifting money from part A to part B, and we can make all the arguments we want. That is camouflaging or shifting the problem from one area to another for a period of time.

How do we tell the young people, you really don't have to worry about this system?

Secretary RUBIN. Mr. Laughlin, if I may say so, I think you are raising a broader and exceedingly important problem which is the whole problem of the country's fiscal position, and frankly, to be personal for one moment, that is a fair measure of why I came into government because I agree with you. I think that it is absolutely critical with respect to the future of this country, and I believe that the President in 1993 was historic in terms of the significance of turning around the fiscal direction of this country. We quadrupled the debt from 1980 to 1992, and now the deficit has fallen by more than half.

As you correctly say, part of the solution going forward has to be a long-term solution to the Medicare problem, and as we have now said many times in this proceeding, that is something we all need to get together and try to accomplish. We believe this commission could be helpful in that respect. Neither our plan nor the congressional majority's plan addresses that issue.

In the interim, because of the authorization and peculiarities with respect to hospital care for the elderly, we have to deal with this part A trust fund, and the proposal that we put forward is a way of dealing with the part A trust fund without adversely affecting effective health care for the elderly, but I think that you couldn't be more right. We then need to turn to the long-term problem, and we are committed to doing so.

Mr. LAUGHLIN. I want to ask a short question, and if you don't want to answer it yes or no, you can give a longer answer.

President Clinton submitted his bill, and since his bill has been submitted and his plan has been submitted, we have gotten your report that indicates there has been a deterioration in the trust fund.

This plan, in fairness, by the President was submitted before these latest findings. Do you agree that the President's plan needs to be revised in view of the latest report and finding that we have in the trustees' report?

Secretary SHALALA. I do not. In fact, the trustees reported the same findings in 1993 and 1994 and 1995. Our conclusion was the same, even with a couple of more years, and the President's plan directly responds to our knowledge about the trust fund.

Secretary RUBIN. Plus, I might observe, if I may, Mr. Laughlin, the actuaries delivered a letter to Secretary Shalala. I think it was yesterday, didn't they? It was saying that the President's plan in the context of the findings in this report would extend the exhaustion date to 2006. So it is a very current evaluation by the career actuaries.

Secretary SHALALA. Yes.

Mr. LAUGHLIN. Is that a part of this trustees' report, that letter?

Secretary SHALALA. It was handed out as part of the trustees' report. We would be happy to provide it to the Committee for the record.

[The following was subsequently received:]

DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care Financing Administration

Memorandum

Date June 4, 1996

From Chief Actuary, HCFA

Subject Estimated Year of Exhaustion for HI Trust Fund under Administration's Balanced Budget Proposal

To Administrator, HCFA

This memorandum responds to your request for the estimated year of exhaustion for the Hospital Insurance trust fund under the Medicare provisions in the Administration's balanced budget proposal. Based on the intermediate set of assumptions in the 1996 Trustees Report, we estimate that the assets of the HI trust fund would be depleted in mid-calendar year 2006 under the Administration's proposal.

In the absence of corrective legislation, trust fund depletion would occur early in calendar year 2001 under the intermediate assumptions. Thus, the Administration's proposal would postpone the year of exhaustion by roughly 5½ years.

The financial operations of the HI trust fund will depend heavily on future economic and demographic trends. For this reason, the estimated year of depletion under the Administration's balanced budget proposal is very sensitive to the underlying assumptions. In particular, under adverse conditions such as those assumed by the Trustees in their "high cost" assumptions, asset depletion could occur significantly earlier than the intermediate estimate. Conversely, favorable trends would delay the year of exhaustion. The intermediate assumptions represent a reasonable basis for planning.

The estimated year of exhaustion is only one of a number of measures and tests used to evaluate the financial status of the HI trust fund. If you would like additional information on the estimated impact of the Administration's Medicare proposals, we would be happy to provide it.

Richard S. Foster, F.S.A.

Mr. LAUGHLIN. Thank you very much.

Mr. THOMAS [presiding]. I thank the gentleman.

Does the gentleman from Iowa wish to inquire?

Mr. NUSSLE. Thank you, Mr. Chairman.

First of all, I have enjoyed your testimony. We are in a difficult situation. The interesting thing about this, it is not much different than a town meeting that you have back in Iowa. Everyone wants to talk about the problem, but as Mr. Laughlin was just pointing out, the seniors don't want their benefits cut. They don't want premiums going up. They obviously don't want to change much, and the younger people don't want to pay much more. So we are stuck between a rock and a hard place, and it just so happens it is your turn to sit in the hot seat and deal with those answers.

In the spirit of bipartisanship, and hopefully to the table to discuss, I am just wondering what issues you think—and let us take for a moment that we can in some kind of short-term way, whether it is the President's plan or our plan or some variation of the two, get to 2006. Let us just assume that for a moment.

To get much beyond that, what issues do you see us needing to address at the table?

Secretary SHALALA. To get beyond 2006?

Mr. NUSSLE. Yes. In other words, the long-term approach to dealing with this problem. What are the issues that we need to discuss at the table?

Secretary SHALALA. Well, I don't think there is anything that we need to discuss at the short-term table other than what kind of an advisory Committee we need in the long run, and how to make the trust fund solvent in the short term. But certainly, as we look at the short-term savings we might get and agree upon, we need to look at the implications of those so they don't cut off long-term options.

If we want to do something on provider payments or on new ways of developing a payment scheme for skilled nursing homes, for instance, we don't want to cut off our options for the future. So we would have to have a very careful conversation, and that is the fundamental point I was making to an earlier question.

Mr. NUSSLE. What are our options for saving Medicare in the long term? I mean, what kind of options do we have?

Secretary SHALALA. I would not want to second guess a long thoughtful review by an advisory group.

Mr. NUSSLE. I understand that, but there are only a few things, as I see it, and if I am wrong, please tell me. You can increase the amount of money going into the trust fund. You can decrease the amount of money coming out of the trust fund.

Secretary RUBIN. I think it leads to one question, and I am not an expert on Medicare. Secretary Shalala is far better equipped to answer, but it seems to me at least one of the questions is, as the President tried to address and I think did address very effectively in his 1994 health care reform program, are there measures you can take so that the entire health care system would function more effectively that will in turn benefit the Medicare Program? I really think we missed an enormous opportunity in 1994 to address this problem in that context.

Mr. NUSSLE. In the paper today, one of the Democrats on the Committee here said that to fix the longer term problem, Mr. Stark said the Democrats probably would resort either to a government takeover of the hospital and health insurance payment system or raising payroll taxes. If those aren't the options, what are the options?

Secretary SHALALA. Congressman Nussle, I think that is too narrow.

Mr. NUSSLE. I would agree.

Secretary SHALALA. We have got to find ways.

Mr. NUSSLE. He seems to be speaking——

Secretary SHALALA. And we, for instance——

Mr. NUSSLE [continuing]. Through you.

Secretary SHALALA [continuing]. Added a huge new initiative on waste, fraud, and abuse which has bipartisan support and we hope will be moving through the Congress, but we have got to look at health care, at what we are trying to achieve and through what institutions we are trying to achieve it. We have to make a much more substantial investment in prevention that will help to save us money, so that we can spend money on those who are truly sick and prevention has to be an integral part.

We now have moved out immunization rates in this country up to 75 percent and have the lowest rates of childhood diseases in American history.

Mr. NUSSLE. I understand that.

Secretary SHALALA. All of that saves money, and that has to be folded into——

Mr. NUSSLE. Yes, but how much money does it save? I mean, we are talking, under anybody's projections, waste, fraud, and abuse, and I am not suggesting that should be lightly looked at. We all agree that that needs to be tackled, but when you are talking about percentages of the overall problem, when it comes right down to it—and I am not trying to put words in your mouth, but I am just saying when we look out into the crystal ball and we look at this long-term problem, when it comes right down to it, it is the amount of money going into the trust fund, i.e., I think more taxes, or it is the amount of money leaving the trust fund, less money leaving the trust fund, i.e., a reduction in the rate of growth, cuts, reduction in benefits, more copayments. That is what I am wondering.

Secretary SHALALA. Congressman Nussle, I think that the advisory Committee will give us all of the above in terms of the list.

Mr. NUSSLE. That is OK, but see, what I am saying——

Secretary RUBIN. Mr. Nussle, could I make a suggestion?

Mr. NUSSLE. No. Just wait 1 minute.

What I am saying is—and this is what troubles me, and I do it, too. Everybody on the Committee does it. The Congress does it. The President is doing it. Everybody is doing it.

We know who votes. We know what is going on. We know what is at stake. It is amazing that we are even having this discussion about Medicare because it is the third rail. I think there is at least some ability through some leadership to do something about it, but I think it is illusory to suggest that unless you are willing to go into some of these bigger ticket items that you are going to able to solve this with a little tinker here and a little tinker there.

Secretary SHALALA. Congressman Nussle, there is nothing in anything we have said——

Mr. THOMAS. The gentleman's time has expired.

Secretary SHALALA [continuing]. That will ever suggest to you that we think tinkering with the system, with the Medicare system, is what is required for the long term. You shouldn't hear that in our tone.

All we have done is come to report that this trust fund needs a short-term fix and a long-term process for taking a look at how we provide health care in this country to two of the most vulnerable groups.

Mr. THOMAS. The gentleman from Maryland, I know, wants to inquire.

Mr. CARDIN. Thank you, Mr. Chairman, and let me thank both of our Secretaries for their testimony here today and their willingness to respond to all the questions that have been put to them.

I want to return to what Chairman Archer stated in the beginning, and that is a challenge to the Democrats and Republicans to come together to deal, hopefully, in 1996 with Medicare.

I appreciate the willingness of the administration to come to the negotiating table without any preconditions to sit down and try to work out as comprehensive a solution to Medicare as we can in 1996. I think that is the right approach that we need to take. However, there are not that many days left in this session. We are running out of time, out of legislative days.

So let me, if I might, try to make some suggestions and see whether we couldn't advance the Medicare reform discussion and get your responses to it.

First, as far as the long-term solvency issues and the affordability issues of Medicare, it seems to me that you have been very clear that we need a bipartisan review and an objective review. Therefore, we need a commission.

Congressman English of this Committee has made such a recommendation. It was included in the Republican bill. It is not included in the trustees' report.

If we were to separate that issue and bring to the President a separate recommendation on a commission, if the Republican leadership in the House and Senate would present that to the President, is it my understanding that the administration would welcome such a commission and would move forward on the long-term issues of Medicare?

Secretary SHALALA. No. The answer is we would very much like to sit down with congressional leadership and work out a process.

We have suggested an advisory Committee to deal with the long-term issues of Medicare.

Mr. CARDIN. So we could work on that as one issue, try to keep it as one issue and try to get that done in 1996 and get that started.

Secretary SHALALA. I think the President would be deeply unhappy with us if we did not link it, though, to the short-term need and insist that we deal with the short-term issue as soon as possible.

Mr. CARDIN. I want to get to that next. I just want to put that aside. If we can just isolate one issue over which, perhaps, there is agreement between the Democrats and Republicans.

On the short-term solvency issues or affordability issues, today's situation is not unusual. That has been pointed out by many of my colleagues. We had a more severe problem in the early seventies which we dealt with by changing the Medicare system. We had the problem again in the eighties where the solvency date was similar to what we have today, and we made certain modifications. We also had a similar problem earlier in the nineties. So we have confronted this issue historically at different times and have dealt with it in the short term.

Your proposal is $116 billion that has been put forward in savings. There has been a lot of talk about the home health care. My understanding is that regardless of the transfer of the home health care services, your proposal will save $116 billion.

Secretary SHALALA. Correct.

Mr. CARDIN. That is scorable CBO savings. It is real.

Many of your suggestions that deal with slowing down reimbursements to providers, whether they be hospitals or physicians or other, in part A or B, and changing some of the philosophy in which we reimburse our providers is consistent with the recommendations that have been made by the Republicans in their legislation and in their discussions.

Am I correct that there is a lot of similarity in that $116 billion?

Secretary SHALALA. Yes. Well, at least there is similarity in areas if not in the specific proposals.

Mr. CARDIN. I guess my suggestion is why can't we just put together a package that contains those areas that we are in agreement and get that to the President and have the President sign that. At least that would extend the insolvency date of the part A trust fund by a few years and remove this 5-year concern that has been brought by the trustees' report. Would the President sign such a bill of areas where there is agreement between the Democrats and Republicans on this issue?

Secretary RUBIN. According to what the President has said, as recently as yesterday, finding a common ground is clearly a constructive thing to do. He believes we should do it preferably in the context of reaching a balanced budget, but we need to move forward.

Mr. CARDIN. I would just hope that if there is an area that is controversial for either the President or the Congress, we could put that aside. Let us go with what we have agreement on so that we can at least move the solvency of the trust fund, and I think you will find we can probably move that by 5, 6, 7 years in areas we have common agreement.

I know my time is over or shortly over. I just want to mention one other point from a Maryland perspective.

Last week, you announced, at least HCFA announced, that Maryland was selected for a pilot program on managed care reimbursement under Medicare. I would ask that you review that because that plan was developed without consultation with our health care community, including our seniors and our managed care operators, nor in consultation with our congressional delegation.

I am just going to ask that you develop a way in which we can sit down and talk about this pilot program before it moves forward.

Mr. THOMAS. The gentleman's time has expired.

I am mindful of the Secretary's timetable, but the gentleman from Massachusetts indicated he wishes to inquire and he has not had an opportunity.

Mr. NEAL. Thank you, Mr. Chairman. I do want to thank the two of you for being here this morning and point out that I think you did a very good job in terms of describing the parameters of the debate and the dilemma that we face.

The great thing about serving in the House is that eventually public opinion does play out, and the truth is that the new majority discovered that people like Medicare. Many of us have contended for a long time that it could be repaired without being axed.

When we hear comments from the Speaker of the House who suggested that we would allow Medicare to simply wither on the vine or the Senate Majority Leader who said at one point that he was proud of having voted against Medicare at its inception some years ago, the reaction from seniors across the country was predictable, and it was discovered by many Members of this body as they went back home to talk about what was happening.

Let me also point out one quick thing as well. President Clinton deserves a lot of credit for having had the courage at least to bring up the issue of health care reform, 3 years ago, and while the issue faded here, as many issues do on the radar screen in short time, in short order, the truth is that in some measure we are back to those measures again in this very debate.

Secretary Rubin pointed out that we were prepared last year to speak to some alterations in the Medicare Program to get us through this difficulty and this challenge that we face. But we should not lose sight of the fact that not only has Medicare added life to years, and years to life, but the average male, I believe, at the turn of the century lived to be about 48½ years old. Today that individual lives well into his late sixties and early seventies. In some measure, that is a reflection of the success of the Medicare Program.

My specific question to you, and I will only hold you to one question, is it your sense that in the right form, the majority here now, the current majority, and the minority and the White House could get together and resolve these issues.

The questioning of you two was very restrained today compared to what I had anticipated, and the reason it is restrained is because some have discovered that people back home were very upset about 270 billion dollars' worth of cuts in Medicare and simultaneously having 240 billion dollars' worth of cuts in taxes for people who, incidentally, weren't asking for those tax cuts.

Is it your judgment that we ought to be able to get together, and I count myself in the middle of the Democratic Party, and resolve these issues in an amicable forum with some of the recommendations that the administration has previously made which, by the way, have now turned out to be sound?

Secretary SHALALA. Congressman, it is not only our judgment. We believe that we must get together and solve the short-term

issue and then put a process together to deal with the long-term questions about the Medicare system.

Mr. NEAL. Mr. Secretary, do you care to add to that?

Secretary RUBIN. No. I think Secretary Shalala said it very well and succinctly.

Mr. NEAL. Thank you, both.

Secretary SHALALA. Thank you.

Mr. THOMAS. I want to thank both of you.

It is somewhat disturbing as we are talking about trying to work together that both the Secretary—and the gentleman from Massachusetts just repeated the number, 270. The reason he repeated it is because at one time it was a number, but that number became 160, and the number is now in the 150s. That is called movement. That is called change. You might even call it progress.

What we heard today was a repeat that you didn't need to make a change on your side. That makes it very difficult.

You have talked about short term and long term. Madam Secretary, I would indicate to you that I think an excellent gesture on your part would be to talk about the fact that currently inside HCFA you are working on regulations to open up without statutory changes the managed care program to try to find some savings in that area. Those are policy changes rather than programmatic or long-range changes, but if we could perhaps sit down and begin to talk about the way in which we are planning on making changes statutorily and that we are talking about making changes inside the structure at the same time, I think it would send a clear signal that perhaps rhetoric is turned down and the willingness to work together, notwithstanding your willingness to continue to utilize the general fund as a primary funder of this program and the majority's unwillingness to allow you to do that.

To the extent we can work on current changes, as well as the legislative short term and long term, that I think would send a very positive message.

Any reaction at all?

Secretary SHALALA. Yes. Congressman Thomas, as you can imagine, I do have a reaction. I think that you have misrepresented what we have said, very clearly.

We have said that this program must change; that there must be a short-term and a long-term strategy for that, and we have said that repeatedly since 1993. The President has consistently laid out proposals to do exactly that.

Mr. THOMAS. I know you are uncomfortable and want to characterize it as mispresentation when I indicate to you that the 1993 change was more than $50 billion of a transfer to taxpayers' money from the general fund to the HI Trust Fund. I know you are uncomfortable when I indicate that the $55 billion home health care shift from the trust fund over to payment by taxpayers out of the general fund is a misrepresentation. The fact of the matter is it is not. It is the utilization of the general fund to mask, if you will, the problems that we need to change in the HI Trust Fund.

Until and unless we understand what each other are doing and represent the aspect honestly in front of the American people, it is going to be very, very difficult to sit down and work out remedies.

The $270 billion, quoted today, is a misrepresentation of the Republican's position.

The failure of the Secretary of the Treasury to understand that the original 1996 fiscal year budget had no Medicare savings in it was obviously a failure to remember a program that he apparently worked on.

Unless and until we can meet on some kind of a working arrangement in which we set aside the political rhetoric and that we lay out an attempt honestly to change the way in which we have both been relating over this last year, you are going to see a 1997 report in which it is not a $400 billion deficit in 2006, but it will be $1 trillion, and that will be a disaster on both our sides, and I want to thank you.

Secretary SHALALA. If we see that report, Mr. Thomas, it will not be because this administration did not step forward and lay out the issues and be prepared to see changes made and be prepared to go to the table. That is the invitation that we have issued. That is what we are prepared to do.

Mr. THOMAS. And you need to understand that as long as you try to get the fix out of the general fund, we will have difficulty coming together. Understand that and we will be able to move forward.

Thank you very much.

This Committee is adjourned.

Chairman ARCHER. Mr. Secretary and Madam Secretary, the Committee has adjourned, but I want to personally apologize to you for not being here for the entire hearing. I was called over to the floor because we have a bill on the floor that we had to be involved in. So I just wanted to let you know that I was not turning my back on you and walking out on you. I had no choice. Thank you for coming.

Secretary SHALALA. We missed you, Mr. Chairman.

Chairman ARCHER. Thank you. Thank you for coming to be with us today.

[Whereupon, at 12:17 p.m., the hearing was adjourned.]

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