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HEARINGS

Before the

COMMITTEE ON FINANCE

UNITED STATES SENATE

EXECUTIVE SESSION

MARKUP OF FY 1984 BUDGET RECONCILIATION

Washington, D.C.

July 14, 1983

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EXECUTIVE SESSION

MARKUP OF FY 1984 BUDGET RECONCILIATION

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THURSDAY, JULY 14, 1983

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United States Senate
Committee on Finance
Washington, D.C.

The committee met, pursuant to notice, at 2:20 p.m., in room 215, Dirksen Senate Office Building, the Honorable Robert Dole (Chairman of the full committee) presiding.

Present: Senators Dole (presiding), Danforth, Chafee, Heinz, Symms, Long, Baucus, and Bradley.

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The Chairman: Let us see. The Caribbean Basin passed the House by what, 289 to 112?

Mr. DeArment: I believe that was 289 to 129.

The Chairman: We hope to go to conference next Tuesday on repeal of withholding and the Caribbean reciprocity enterprise zones, mortgage revenue bonds.

Now, Senator Danforth is here, and I think other Senators will be coming, but the primary purpose of the meeting this afternoon was to go through other options for spending reductions. And I think perhaps, as I indicated yesterday, under the reconciliation instruction we are asked to -- what

1 is it, Sheila, \$1.8?

2 Ms. Burke: Our reconciliation instructions, Senator,
3 over three years is \$1.7 billion.

4 The Chairman: That does not mean that we cannot do more
5 than that, is that correct?

6 Ms. Burke: That is correct.

7 The Chairman: Four or five billion if we can find the
8 votes, or six.

9 Ms. Burke: There is no limit, Senator.

10 The Chairman: Because the budget process is such a
11 shambles, maybe we can do better without it. So we do we not
12 start. There are a number of documents that contain spending
13 reductions, and there may be other members who have other
14 ideas on how to reduce spending, so we are not limited to
15 what we have in the blue book or in the extracts from the
16 blue book. And I know Senator Heinz has some ideas that we
17 are trying to get costed out. I understand it has
18 substantial dollar savings. So if anybody has any painless
19 ways to reduce spending, we would like to take those up first.

20 Senator Heinz: Maybe you should start with mine.

21 The Chairman: Let us hear from Senator Heinz.

22 Senator Baucus: Before we do, I think logically, with
23 the Chairman's permission, I think it is important again for
24 the record for all of us to understand that we already have
25 met our spending reduction mark as proposed by the Budget

1 Committee.

2 Now, maybe the budget process is in shambles; maybe it is
3 not. I know the fact of the matter is that we do have a
4 budget, and the budget was agreed to by the House and the
5 Senate, and the conference was agreed to by both bodies. And
6 in the measure we passed yesterday we did meet our mark by
7 reducing spending \$1.7 billion over the three-year period.
8 And I just think it is important for the record for that to
9 be known.

10 Second, it is my understanding -- and perhaps staff can
11 shed some light on this -- that the budget resolution also --
12 and we did pass a budget resolution -- directed health
13 insurance or directed health benefits for the unemployed
14 program, unemployed health benefits to be passed by the
15 Congress in the amount of \$4 billion. Our program yesterday
16 was \$1.8 billion, which is half the amount we are authorized
17 to spend under the budget resolution.

18 So the fact of the matter is that since we have already
19 met our spending reduction requirements and because the
20 health insurance benefit program passed yesterday is half or
21 less than half as provided for in the budget resolution, then
22 it's fair to say that the only additional legislation
23 required to meet under the budget resolution would be
24 revenue-raising measures.

25 And I was wondering if I might ask the staff whether that

1 is a correct understanding of where we are, at least with
2 respect to the requirements of the budget resolution.

3 It is true this committee can do what it wants to try to
4 reduce more spending and perhaps raise more revenue, but
5 insofar as the parameters of the budget resolution are
6 concerned, I wonder if I might ask Sheila if my understanding
7 is correct, or anyone else on the staff who might want to
8 answer that.

9 Ms. Burke: Senator, as I understand your question, it is
10 a clarification of what is provided for in the resolution.
11 The committee was reconciled for \$1.7 billion in savings. We
12 were also reconciled for an additional \$73 billion in
13 revenues. The resolution also contained language which is
14 not required on the part of the committee, but language which
15 provided for in the budget if a program was enacted for
16 health benefits for the unemployed equivalent to about \$4
17 billion. The program, as I understand it, was not
18 reconciled. There also are provisions for additional
19 spending in other areas, again not reconciled to the
20 committee.

21 So my understanding of your question is that yes, you are
22 correct; \$1.7 is reconciled to the committee in spending
23 reductions, \$73 billion in additional revenue. And there is
24 provision in the budget for spending for a program on health
25 benefits for the unemployed. The action yesterday achieved a

1 savings of \$1.7 billion in reductions from the baseline in
2 the context of the Medicare program.

3 Senator Baucus: Thank you very much.

4 I just think, Mr. Chairman, that that point should be
5 made clear just for the record so we know where we are at
6 this point. Obviously, the committee can do whatever else it
7 wants to.

8 Mr. DeArment: Mr. Chairman, there is one additional
9 point. In order to meet our reconciliation target, we would
10 have to report \$1.7 billion in budget savings in a
11 reconciliation bill to the Budget Committee. The measure we
12 reported yesterday did not do that, so we have not
13 technically --

14 The Chairman: I understand that. I understand the
15 point. But I think that is technically correct. But, again,
16 it goes to the whole budget process and the way the Budget
17 Committee is becoming an authorizing committee. They say you
18 can spend so many dollars on a program. I never believed
19 that was their function, I do not believe it now, and I do
20 not intend to be bound by it. And I would hope that if they
21 are going to become the authorizing committee, we would
22 merely become sort of a subcommittee to carry out the details
23 of their program.

24 But it is my hope that we can still preserve any intent
25 on those concerned about health care for the unemployed to

1 report it out without funding. That responsibility was met.
2 There may not be enough votes to further reduce spending. I
3 hope there are enough votes to reduce it more than the \$1.7
4 billion. And I know the administration is here today, and
5 perhaps they might have some ideas. But Senator Heinz does
6 have this pacemaker.

7 Senator Heinz: Mr. Chairman, before we go to that, and
8 as long as we are on health benefits for the unemployed, I
9 would like to bring up a subject regarding the bill we
10 reported yesterday.

11 The Chairman: Yes.

12 Senator Heinz: It has come to our attention that through
13 an oversight on my part drafting, that unemployed rail
14 workers are not going to receive and will not be eligible for
15 any health care benefits at all under S. 951, at least as
16 currently drafted. That is because the bill provides health
17 insurance only to those who receive benefits from state
18 unemployment compensation systems at the local unemployment
19 security administration office.

20 Rail workers collect their unemployment benefits paid out
21 of the rail unemployment insurance account through regional
22 offices of the Railroad Retirement Board. They will
23 therefore be excluded from receiving benefits under this
24 bill.

25 I do not think that it was the committee's intention to

1 exclude them simply because of that administrative fact of
2 life. There are about 110,000 unemployed rail workers
3 nationwide. I happen to have 10,000 of them in
4 Pennsylvania. The rest are in Kansas, Montana and Rhode
5 Island, I am told, and Idaho.

6 [Laughter.]

7 Senator Heinz: The Railroad Retirement Board estimates
8 that almost all of the rest of the unemployed have exhausted
9 their unemployment benefits, including health insurance. And
10 furthermore, the Board estimates an additional 220,000 rail
11 dependents have lost their health coverage.

12 We have, I think, discussed this with staff. I cannot
13 say that there is no objection. I do not know that. I do
14 not know of any objection. It would be my hope that we could
15 have a committee amendment that would cure the problem.

16 The Chairman: Sheila, have you discussed this?

17 Ms. Burke: Yes, sir. The issue of railroad retirees or
18 railroad individuals was indeed discussed at the outset.
19 There was no deliberate intention to exclude them. The one
20 concern we had is that they, of course, do not, as you point
21 out, go through the unemployment offices; and we would have
22 to make sure provision was made to pay the unemployment
23 offices basically for the additional cost of that service in
24 the sense that an individual is not normally going through
25 their office. But there was no deliberate intention to

1 exclude that population.

2 Senator Heinz: Do you see any reason why we cannot work
3 out the necessary language on it?

4 Ms. Burke: I do not believe so, Senator.

5 The Chairman: Well, maybe we can do that if we have
6 enough for a committee amendment.

7 Senator Heinz: We will undertake, Mr. Chairman, to get
8 at least 10 or 11 members of the Finance Committee to express
9 an interest in doing that, in effect to poll it out, if that
10 would be permitted.

11 The Chairman: Now, are we ready? Do you want to discuss
12 your pacemaker amendment?

13 Senator Heinz: If you would like to, Mr. Chairman.

14 As some of the members may be aware, the Aging Committee
15 last year started and almost completed what amounted to a
16 year-long investigation of pacemakers. We published a
17 207-page information paper. As a result of the
18 investigation, 35 FBI field offices and two federal grand
19 juries are undertaking investigations of the pacemaker
20 industry.

21 The Health Care Finance Administration has already issued
22 new Medicare guidelines governing appropriate indications for
23 pacemaker implantations. But beyond that, we uncovered the
24 fact that there are many excessive Medicare reimbursement
25 practices. We uncovered the fact that the Medicare system

1 appears to be reimbursing almost any amount for pacemaker
2 devices causing purchasers to not buy in a prudent fashion.
3 We uncovered the fact that the Medicare program never
4 collects or almost never collects warranties on pacemakers.
5 Almost all of them are warranted for at least five years.
6 Where the warranties are not collected, there are an awful
7 lot of cases apparently where the physicians do collect the
8 warranties and put the money in their pocket as a bonus.

9 We uncovered the fact that fees paid to surgeons are
10 based on medical procedures that are very much out of date.
11 Today's procedures are much simpler. And we learned that
12 there is a very real need to create a national pacemaker
13 registry.

14 We have developed legislation, Mr. Chairman, that has
15 five parts to it. Two of those parts reduce the allowable
16 reimbursement for pacemaker devices in the first case to new
17 implantations; second, for reimplantations by 15 percent and
18 30 percent, respectively.

19 We have reduced the reimbursement for surgical fees by,
20 in gross amount, 25 percent, but since we eliminate the
21 co-insurance, it works out to about a good deal less than
22 that in terms of revenue to the surgeons.

23 We reduced reimbursement on followup monitoring 50
24 percent in the frequency and a 25 percent reduction in the
25 reimbursement for transtelephonic monitoring.

1 Added all up together, the first year savings on this
2 would be some \$227 million in the first year and presumably
3 at least that amount for each of the next two years, probably
4 more. That would mean that, assuming that the committee felt
5 these were good things to do, that we would have
6 three-quarters of a billion dollars of savings just over
7 three years from these proposals.

8 I think it might be a good idea, Mr. Chairman, to ask,
9 first, your staff, the Finance Committee staff to comment on
10 this as to the authenticity of the savings that have been
11 developed here. And secondly, if the administration has any
12 comments, if they care to endorse them, it is fine, too.

13 It would be my hope that we might be able to save a
14 considerable amount of money here.

15 I would only add this is an extremely conservative set of
16 proposals. To give you one idea, we are only reducing the
17 cost of the device to Medicare by 15 percent.

18 Now, someone will say, gee, how can you do that, and the
19 answer is that we sent investigators to New York and San
20 Francisco. They posed as purchasing agents for a phony health
21 care provider. Well, they were phony purchasing agents for
22 health care providers. And in virtually every instance, as a
23 salesman would walk in and my investigators would hem and haw
24 a little bit, in every single instance a discount of 20
25 percent was offered to them. And let me tell you, that is 20

1 percent less than what Medicare today pays.

2 And so even though Medicare is paying whatever it is they
3 pay, the common practice of anybody who tries worth a fig is
4 to get 20 percent, is to get a pacemaker for 20 percent less
5 than that.

6 Now, we are only suggesting that the cost of the device
7 be reduced by 15 percent. So when I say the reimbursement
8 for the device be reduced by 15 percent, when I say we are
9 being conservative, I mean we are being conservative.

10 I might add that the Inspector General of HHS, Stanley
11 Kuserow, has also written to HHS suggesting that they should
12 do some of the things that we suggest, and we can get into
13 that as we go along.

14 The Chairman: I understand that -- I am advised that
15 Senator Durenberger would like to speak on this. We do not
16 intend to vote on it today.

17 Senator Heinz: I would not want to press it to a vote.
18 I think it needs to be looked at, Mr. Chairman.

19 The Chairman: I would like to hear from -- staff has
20 been asked to take a look at it, and see if we can get some
21 cost estimates, whether or not those are available, and then
22 maybe Mr. Donnelly may have a comment.

23 Ms. Burke: Senator, we have contacted the Congressional
24 Budget Office, and they have confirmed the methodology used
25 in establishing the cost estimate for Senator Heinz'

1 proposal, but have not yet been able to substantiate the
2 actual savings attributed to each of their proposals. They
3 have indicated that they will be able to provide us with
4 those by the first part of next week, so we are not yet able
5 to determine whether the numbers are correct or not.

6 The Chairman: We will probably vote sometime next week
7 on the package.

8 Does the administration have any comments in this area,
9 Mr. Donnelly?

10 Mr. Donnelly: Well, let me just say, Mr. Chairman, that,
11 as Senator Heinz knows, we worked with his Committee on Aging
12 at the time those hearings took place. The Inspector
13 General's report was something which we took as very
14 significant and worked through a number of those areas and
15 practices that he is speaking about.

16 We are not able either to at this stage substantiate or
17 not substantiate the kind of cost estimates on these
18 proposals that the Senator puts forth. We would be happy, as
19 the staff mentioned, to work with he and his staff to
20 determine some of that methodology, whether or not we would
21 have questions or that sort of thing.

22 I think the principle at stake here that we are concerned
23 about is that this committee and many others in this body and
24 on the other side of the Hill worked very hard to develop a
25 prospective payment initiative which was in fact one of the

1 principal suggestions of the Inspector General's report. And
2 it is on that basis of providing these tools -- and the
3 regulations, as you know, for that are just in the process of
4 being developed right now. It is precisely that kind of tool
5 of leverage in the area of cost management that it is our
6 intention that the DRGs and others provide for the hospital
7 people.

8 If they can go out and squeeze down on providers of goods
9 and services through their negotiating, we think that is a
10 part of the mechanism of DRGs and the prospective
11 reimbursement plan that they ought to have.

12 We can and are prepared to, if the Senator would like --
13 the Deputy Administrator of HCFA is with me -- at some time,
14 perhaps not now, to discuss where we are on implementing some
15 of the practice mechanisms that were in that IG report. But
16 we treated that matter with serious and significant concern,
17 and have moved out and made a great deal of progress in that
18 area. And as a result, at this point I would say that we
19 find at this juncture in developing the DRG system that this
20 amendment perhaps is premature and perhaps not necessary.

21 Senator Heinz: Mr. Chairman, as I understand what the
22 administration is saying, they feel that in some way, now
23 that we are about to implement DRGs, that this is -- somehow
24 this will prevent them from doing it right.

25 I must say I find that a very unconvincing rationale. If

1 we have been overreimbursing, grossly overreimbursing, in my
2 judgment, in the pacemaker program, to say that because we
3 have got DRGs we cannot fix an unrealistically high DRG is
4 saying that because we made a mistake last year, we have to
5 perpetuate it, and I do not believe HHS really would adopt
6 that kind of philosophy.

7 Secondly, the fact that we have not implemented this up
8 to now, whereas we might have six months ago not had this
9 argument, it seems to me another problem with the point of
10 view of HHS.

11 In point of practice there is a third distinction I would
12 make. If one were talking here about hospital services which
13 are bound up in the hospital cost structure, and the people
14 the hospital has to hire, and the utilities the hospital has
15 to pay, and the supplies they routinely have to order, I
16 would think there would be more of a case.

17 But what hospitals do with respect to pacemakers is they
18 order them on demand. It is an in-out kind of thing. And
19 you are talking about an item that costs \$2,000 to \$4,000.
20 They do not pay in advance. The salesman comes over with it
21 when you want one. And it is not really an item that the
22 hospital ever has in inventory.

23 Indeed, our hearings are replete with the fascinating
24 fact that the salesman when these pacemakers are being
25 implanted is in the hospital operating room 60 percent of the

1 time. One of the reasons he is there is to help the doctor
2 do his job. The other reason he is there is to arrive with
3 the pacemaker in time.

4 So I would suggest that in the case of pacemakers we are
5 talking about not the cost of operating hospitals, but we are
6 talking about the cost of a device that is brought in as the
7 need arises, and that, therefore, that HHS' argument, at
8 least as far as I am concerned, is not very logical. Even
9 though I respect the people who made the argument, I think it
10 is a lousy one.

11 The Chairman: Well, we have a vote in progress, and we
12 will come back. And I think this suggestion, Senator Heinz'
13 suggestion, has merit, and maybe we ought to try to see if we
14 cannot establish what the savings might be and whether or not
15 we are doing violence to any program that may be
16 implemented. And I am hopeful that other Senators will be
17 present.

18 The primary purpose of this session is to have a public
19 session on the spending reduction proposals, because there
20 are always some members who feel they have not had adequate
21 notice. And I assume if we have a hearing and they do not
22 show up, then that is not my problem.

23 But we do hope to go through the list this afternoon and
24 ask questions, if members have questions, and then hopefully
25 try to put together some package if we can and start some

1 voting next week.

2 So we will come back right after the vote.

3 Senator Symms: Mr. Chairman?

4 The Chairman: Senator Symms.

5 Senator Symms: Mr. Chairman, I just want to mention that
6 I do have the Tricyclopod amendment, and I just wondered if
7 the people at HHS had had a chance to look at that.

8 The Chairman: What I might suggest, and maybe Sheila can
9 discuss it with Mr. Donnelly while we are voting, and we will
10 check when we get back.

11 Senator Symms: Okay.

12 [Recess.]

13 The Chairman: Have you had an opportunity to discuss the
14 concern raised by Senator Symms?

15 Ms. Burke: Yes, Senator. The administration was asked
16 yesterday to consider the proposal which, as I understand it,
17 would provide Medicare reimbursement for three-wheeled
18 vehicles that are utilized by individuals in wheelchairs.
19 They are not in and of themselves considered durable medical
20 equipment because of restrictions in the law that indicate
21 that only that equipment which is used primarily for medical
22 services is determined as such. It is that language which is
23 prohibitory in the context of this three-wheeled vehicle.

24 My understanding is the administration would not be in
25 favor of expanding Medicare coverage for that vehicle and

1 would consider it likely to be an additional cost to the
2 program.

3 Mr. Bourque: We have been looking, Mr. Chairman, at that
4 specific piece of equipment, and our concern is that while we
5 do pay for certain power-operated wheelchairs and for some
6 other pieces of durable medical equipment that would allow
7 mobility, particularly in the home, we are concerned about
8 extending that to vehicles which would not be primarily
9 medical devices and might be used extensively out of the home.

10 Our rules at this point do not permit coverage for that,
11 and there are many different types of equipment that are on
12 the market now that could fall into that rubric, some that
13 are advertised as golfcarts, and there is a potential for a
14 great deal of abuse here, and we are concerned about that.

15 The Chairman: If you would discuss that -- I am certain
16 you have or will -- with Senator Symms. And I think now if
17 we start through the options, there are a couple of areas
18 where we wanted to, in addition to reducing spending, a
19 couple of areas where we wanted to make some changes as far
20 as maternal-child health and Puerto Rico.

21 Could you just touch on those two things briefly? And
22 then Senator Heinz will be recognized.

23 Ms. Burke: The two proposals are described in the
24 document before you, additional budget options, and they are
25 located on pages 3 and 4 of that document.

1 The first would provide for an increase in the Medicaid
2 ceilings for Puerto Rico and the territories. Under current
3 law, federal Medicaid matching rates for those territories
4 and Puerto Rico are set at 50 percent, unlike the rest of the
5 states which of course have a variable matching rate, and
6 they are capped for each of those areas on an annualized
7 basis.

8 This would provide for an increase of \$20 million to be
9 distributed on the same basis, basically in terms of the
10 percentages among Puerto Rico and all of the other
11 territories that participate in the program. It would
12 actually provide to Puerto Rico approximately \$18.4 million;
13 for the Virgin Islands, \$600,000; for Guam, \$600,000; the
14 Northern Marianas, \$200,000; and American Samoa, \$400,000.
15 Again, a total of approximately \$20 million in additional
16 spending provided for those particular areas.

17 The second proposal would provide for an increase in the
18 authorization for material and child health block grant
19 program. The present authorization for the MCH block grant
20 is \$373 million. The Congress originally appropriated that
21 amount, but has since that time, under Public Law 98-8,
22 provided for an additional \$105 million in additional
23 appropriations to increase the availability of services under
24 this block grant.

25 The proposal would permanently increase the authorization

1 levels for the MCH block grant program by \$79 million for
2 1984, \$80 million in 1985, and \$82 million in 1986.

3 The Chairman: What was that last part again?

4 Ms. Burke: The second proposal would permanently
5 increase the authorization levels for the maternal and child
6 health block grant by \$79 million in 1984, \$80 million in
7 1985, and \$82 million in 1986.

8 The Chairman: Senator Heinz, do you have a followup?

9 Senator Heinz: Well, on a different subject. I just
10 wanted to inquire of Sheila if one of the things she is going
11 to go cover includes lab payments, in effect, for blood and
12 urine samples, because if not, there is an item I think we
13 ought to consider.

14 Is that one of our book items?

15 Ms. Burke: There is a descriptive piece before you that
16 is entitled "Lab Payments."

17 Senator Heinz: I have something entitled "Lab Payments"
18 that says "Heinz Amendment." Maybe we just took your piece
19 and put our name on it.

20 Ms. Burke: No. I believe it is a Heinz amendment.

21 Senator Heinz: This saves \$81 million over three years.
22 We had about five of these, Mr. Chairman, and we could really
23 solve all of our problems.

24 The Chairman: Is the administration familiar with that
25 amendment?

1 Senator Heinz: I can explain it in about 30 seconds or
2 less. Basically, there are a lot of instances, I am told,
3 where rather routine lab procedures such as the analysis of
4 blood and urine samples are paid on two different rates.
5 There is a rate to physicians for their normal work, and then
6 there is a rate to Medicare which is usually higher. And
7 what the amendment simply says is there are not going to be
8 two-tier rates. If there is a rate that is lower for
9 physicians from a lab, that is what Medicare is going to get,
10 going to reimburse.

11 And I am told that this will pick up \$81 million a year
12 -- I mean \$81 million over three years, about \$20 or \$30 each
13 year.

14 Ms. Burke: Again, Mr. Chairman, with this proposal we
15 have asked that CBO clarify the savings or substantiate the
16 savings that are indicated. We understand that there are
17 some concerns about the desire on the part of labs to accept
18 assignment, and perhaps by reducing their payment rates that
19 they would be unwilling to do so in certain circumstances.

20 But we would like to have the opportunity to talk with
21 CBO and substantiate the numbers, and perhaps talk with the
22 administration about the proposal.

23 Senator Heinz: Now, Sheila, as you understand the
24 amendment and the way it works, is it not true that the
25 amendment would only operate where there is a two-tier

1 payment system and where that payment system forces Medicare
2 to pay more than a non-Medicare lab piece of work?

3 Ms. Burke: My understanding, Senator, after having
4 looked at the description -- I have not yet had an
5 opportunity to look at the legislative language -- is that
6 the intention is to reimburse at the same level that is
7 reimbursed if the test were provided in a physician's
8 office. And in that sense, yes, it would produce rather than
9 a two-tier in the sense of providing a different payment
10 level to the laboratory rather than to the physician, it
11 would provide for the same level of reimbursement on the part
12 of Medicare.

13 The Chairman: Let us take a look at that.

14 Tom, do you have any comments you would like to make?

15 Mr. Donnelly: We will certainly take a look at it as
16 well with the staff. Clearly, the philosophy behind it is
17 something that we are in accord with. I recall a former
18 secretary speaking on these matters rather forcefully.

19 Senator Heinz: I want to compliment the administration
20 on being almost totally out front.

21 [Laughter.]

22 Senator Heinz: And there is still time to get all the
23 way out front.

24 [Laughter.]

25 The Chairman: Okay, Sheila. Let us go through the other

1 ones, unless there are some on my right who want to discuss
2 it. I do not see many on my left who would want to discuss
3 it, and not many on my right. But let us go through the book
4 and give us a brief description of each of the areas, and
5 there may be others that maybe the administration has
6 supplemental areas, and any other areas that you would like
7 to have us take a shot at reducing spending. We believe that
8 we might be able to do it.

9 And so go ahead, and we will go through our little list.

10 Ms. Burke: There is a document pending before you
11 entitled "Background Data and Materials on Fiscal Year 1984
12 Spending Reduction Proposals." If you refer to page 4 of
13 that document, you will find a summary chart which lists the
14 proposals which were submitted by the administration. They
15 would achieve a savings in the Medicare program of \$10.8
16 billion over three years, in the Medicaid program of \$1.5
17 billion over three years.

18 The Chairman: What is that page?

19 Ms. Burke: Page 4, Senator.

20 On page 7 of that document it provides the first
21 description of the proposal, and that is the proposal to
22 restructure beneficiary cost sharing under the Medicare
23 program. Under current law Medicare beneficiaries are
24 required to pay an inpatient hospital deductible of \$304
25 currently, and if they are hospitalized for longer than a

1 60-day period of time, they pay additional daily co-insurance
2 amounts which increase through the 50th to 90th day, and then
3 from the 60th day on are a larger number.

4 The proposal of the administration would restructure the
5 current hospital inpatient and skilled nursing facility cost
6 sharing requirements and would specifically eliminate cost
7 sharing for any hospital days of care after 60 days of care.
8 It would impose new cost sharing requirements on the first 60
9 days of care, a daily co-payment equal to 8 percent of the
10 inpatient deductible from day 2 through 15, and a daily
11 co-insurance amount equal to 5 percent of the deductible
12 amount for subsequent days, the 16th through 60th day.

13 They would also limit the number of times in a year that
14 the inpatient hospital deductible would have to be paid, and
15 they would reduce the present payment amount applicable to
16 skilled nursing facilities.

17 The second proposal is described on page 8 of that same
18 document, and would describe for a voluntary Medicare voucher
19 program. Under current law, payments are generally on behalf
20 of the beneficiaries to hospitals and other institutional
21 providers who participate in the program, except for a
22 limited provision contained in Public Law 97-248 which
23 allowed for payments to be made to help maintenance
24 organizations equal to 95 percent of the average per person
25 cost of the Medicare program.

1 This proposal would establish a voluntary Medicare
2 voucher under which beneficiaries could elect to receive
3 services through a private health benefits plan.

4 The Chairman: Does the administration still support the
5 voucher plan?

6 Mr. Donnelly: Yes, sir.

7 The Chairman: Are you optimistic?

8 Mr. Donnelly: Well, Mr. Chairman, the voucher plan, as
9 you know, was part of a package of larger health incentive
10 reform proposals, including the first proposal that Sheila
11 has read and others that will be addressed here. And we felt
12 that the entire package represented a coherent picture. If
13 you simply took this out on its own, we think it is good
14 policy, but without some of the accompanying savings.

15 It is a question about whether or not it fits in the
16 whole package. It is not that it is bad policy -- it is a
17 very good policy -- but it needs to be addressed as a part of
18 the bigger picture.

19 The Chairman: I guess that is probably my question. If
20 you were -- in other words, you would want other portions of
21 the package to be adopted and not just pick and choose
22 different pieces.

23 Mr. Donnelly: Well, we certainly think that the package
24 deserves consideration on its merits as a whole. I think if
25 there needed to be pick and choosing, it is something that we

1 would have to address on a case-by-case basis as we went.

2 I think the point that you raised earlier about would we
3 want just this picked out with the cost item on it and no
4 savings, I think that would be very difficult for us to
5 address.

6 The Chairman: All right, next. I think we can probably
7 move a little more quickly on these.

8 Ms. Burke: The next proposal was agreed to, modified and
9 agreed to by the committee yesterday.

10 The fourth proposal would reduce hospital cost target
11 rates.

12 The Chairman: I would say that it has been suggested
13 that perhaps you could pick up the balance of this, of number
14 -- of the freeze proposal. I mean a portion of that or at
15 least a modification of that was adopted yesterday, which I
16 guess would suggest you could pick up the balance of it in
17 the reconciliation.

18 Ms. Burke: The numbers that are reflected in the blue
19 book are somewhat in excess of the current estimates because
20 we have passed the July date for changes in the rates, but it
21 would be close to that amount.

22 The fourth proposal would reduce the target rates for
23 hospitals by one percentage point. Under current law we
24 provide for payment which is based on changes made in the Tax
25 Equity and the Fiscal Responsibility Act which limit the rate

1 of hospital expenditures to the market basket plus one
2 percentage. This would remove that one percentage point in
3 estimating the base even though the transition period under
4 prospective payment.

5 Item number 5 noted on page 10 of the booklet was
6 modified and agreed to by the committee yesterday. That
7 provided for retaining the Part B premium at 25 percent of
8 program cost.

9 Item number 6 was a proposal which has been agreed to by
10 the committee in the past and was contained in the
11 committee's amendment to TEFRA and its resubmittal on the
12 part of the administration. It would provide for indexing
13 the Part B deductible which is currently fixed on an annual
14 basis. It is currently \$75. That was increased as a result
15 of a provision in TEFRA from \$60 to \$75. Prior to that time
16 it had not been altered since 1972. This would allow it to
17 be indexed by increases in the medical economic index each
18 year.

19 Item 7, the delay in initial eligibility date for
20 Medicare entitlement, is also a resubmittal on the part of
21 the administration, and has been agreed to by the committee
22 in the past and by the Senate as part of TEFRA, and was
23 dropped in conference. This would delay for one month the
24 period of eligibility for Medicare.

25 The Chairman: As I recall the problem, what happens

1 during that one month? Was that not the problem we had in
2 conference?

3 Ms. Burke: Yes, sir. There was concern that the
4 individuals who were delayed would not have coverage during
5 that period of time. We were unable to ensure that there
6 would be other provision made for them during that time.
7 Those who were in private insurance we were told would in
8 most cases be continued until such time as Medicare picked
9 up, but there may be those who would have no coverage during
10 that period of time.

11 The Chairman: I think that is a legitimate objection to
12 that provision, unless we can find some way or the Department
13 has had an opportunity to address that.

14 Mr. Donnelly: I will see if we have an estimate.

15 Senator Bradley: Mr. Chairman, I was concerned about
16 that, too. I mean who is going to pick up --

17 Mr. Donnelly: I am asking whether we have an estimate in
18 that respect, Senator.

19 The Chairman: You might want to address that. I think
20 it made sense until you thought about it, then it did not
21 make much sense at all, if you are going to have a 30-day
22 period where you are just totally vulnerable. But there was
23 somebody who said well, you do not have to worry about that,
24 because you will be covered in any event under your
25 insurance. If that is the case and if there is some way to

1 protect those who are not, you probably still have some
2 savings. So if you can help us --

3 Mr. Donnelly: That is exactly the thought that run
4 through my mind. I am asking the staff to check that out.

5 Ms. Burke: Item number 8 located on page 12, 8-A and 8-B
6 were both proposals submitted in the past by the
7 administration and rejected by the committee. The first
8 would eliminate mandatory utilization review. The second
9 would eliminate the peer review program.

10 Senator Bradley: How does this interact with what we did
11 on the DRGs?

12 Ms. Burke: This would effectively remove the peer review
13 program as a mandate as far as Medicare was concerned,
14 Senator. The intention is to remove any requirement for a
15 review to take place as financed by the federal government.
16 So, in effect, it would make useless the provisions contained
17 in the perspective which required that institutions have
18 relationships with PRO organizations. It would cease any
19 financing from the federal government for those peer review
20 organizations, and remove the requirement for peer review
21 activities on the part of Medicare patients.

22 Senator Bradley: And therefore it would be pretty much
23 left to the DRG system itself to assess how well it is doing
24 or the quality of service?

25 Ms. Burke: Yes, sir.

1 Item number 9, which is noted on page 13 of the document,
2 under "Present" it deals with reduced reimbursement to home
3 health agencies for durable medical equipment. Under present
4 law when durable medical equipment is provided by a supplier
5 of services -- for example, a durable medical equipment
6 dealer -- rather than by an institutional provider, payment
7 under Part B of the program is on the basis of 80 percent, as
8 it is for physician services and other services provided
9 under Part B. If the equipment is furnished by a provider
10 such as a home health agency, however, payment is made on the
11 basis of 100 percent of the reasonable cost of the rental or
12 purchase of such equipment.

13 This proposal would reimburse home health agencies on the
14 same basis as it would any other provider of service for
15 durable medical equipment, and would therefore pay 80 percent
16 of reasonable costs and permit the agencies to bill
17 beneficiaries for the remaining 20 percent as other agencies
18 are permitted to do. The savings are noted -- \$55 million
19 over three years.

20 The Chairman: That is not much savings, but it seems to
21 me it makes a great deal of sense.

22 Senator Bradley: What was the rationale initially for
23 the differential -- not that there has to be one.

24 Ms. Burke: I think it was just an incentive to use home
25 care centers.

1 The Chairman: Is there any justification for at least
2 some payment by the beneficiary?

3 Mr. Bourque: Well, of course, we think that if the
4 beneficiary is paying some of the cost sharing, that they are
5 apt to use some of these services to a lesser extent. But I
6 think more importantly, we just feel that it gives home
7 health agencies an unfair competitive advantage.

8 The Chairman: There is a TV ad running right now in the
9 area -- I cannot remember which channel -- about some fellow
10 telling how great all of this is, it does not cost you a
11 thing, and shows all the wheelchairs and all the other
12 equipment, just call this number. That is crazy.

13 Mr. Bourque: There has been concern about extended use
14 of durable medical equipment, and this would make consumers a
15 little more cost conscious.

16 Ms. Burke: Item number 10, which is located on page 13
17 of the booklet, would provide competitive procurement of
18 laboratory services, durable medical equipment and other
19 medical supplies. Under present law physicians and
20 beneficiaries have the option to select sources of laboratory
21 services, DME and other medical supplies. This proposal
22 would allow the Secretary to enter into agreements, exclusive
23 agreements, with providers of those services, and as a result
24 would not allow physicians or beneficiaries to make a choice
25 from the available sources in the community, but would rather

1 limit those choices to certain providers.

2 Senator Bradley: Does this go nationwide immediately?

3 Ms. Burke: The proposal is indeed intended nationwide,
4 but I would assume that the contracts would be within many
5 cases local agencies or providers of service. I do not know
6 that the administration would intend to go with a nationwide
7 provider, but that would depend upon the service presumably,
8 Senator.

9 Mr. Bourque: We expect this would be regional and
10 limited to particular local markets.

11 Senator Bradley: Do we want to consider limiting it in
12 the sense of making it a kind of demonstration in the regions
13 that you wanted to go in so we can actually test to see if it
14 works?

15 Mr. Bourque: Well, we are currently undertaking a study
16 of how we would go about these negotiations, and we certainly
17 would like the demonstration authority, but we would like the
18 broader authority to allow us to go where we so choose given
19 the results of the study.

20 The Chairman: Is this the Heinz proposal?

21 Mr. Donnelly: Well, I would think this is a legitimate
22 area where we could look at Senator Heinz' proposal as well,
23 and perhaps some accommodation of the thing you raised
24 earlier might be addressed in this competitive purchase.

25 Senator Bradley: That is Senator Heinz' proposal on

1 pacemakers?

2 Mr. Donnelly: The one on laboratories. It seems to me
3 to be in the same vein.

4 Senator Heinz: One thing, on the laboratory tests we do
5 have a CBO estimate on it.

6 Mr. Donnelly: It just occurred to me that perhaps we
7 would want to address the two together in some way.

8 Ms. Burke: Item number 11 is noted on page 14 and is
9 also a resubmission on the part of the administration, and
10 would eliminate the waiver of provider liability for
11 uncovered services. Under current law Medicare pays
12 hospitals and skilled nursing facilities for certain
13 uncovered or medically unnecessary care furnished
14 beneficiaries if those facilities could not have known that
15 payment would be disallowed. The institutions are not held
16 liable for those costs, and indeed, neither are the
17 beneficiaries.

18 The proposal would eliminate this waiver of liability
19 provision for providers, but, however, it would not allow the
20 institutions to seek payment from the beneficiaries if such
21 payment were disallowed.

22 Item number 12 is noted on page 14. It would provide for
23 an assignment of inpatient hospital benefit period deductible
24 and co-insurance in the order of filing a payment request.
25 Under current law the responsibility for collecting

1 deductible and co-insurance amounts from beneficiaries in
2 connection with stays in more than one hospital is currently
3 assigned in the chronological order in which the services are
4 furnished. So, for example, if an individual were admitted
5 into an institution and cared for and then admitted into a
6 second institution, the first institution would be held
7 responsible for the collection of the deductible.

8 The administration proposal would assign the
9 responsibility in the order in which the hospital submitted
10 requests for payment; so, for example, if the second
11 institution billed first, they would be held responsible for
12 the collection of the deductible even though the individual
13 would have been in an institution prior to that time who
14 would in actuality have collected the deductible or been
15 responsible for doing so on that admission.

16 Item number 13 is located on page 15 of the handout.
17 That would provide for a modification of the Medicare
18 contracting requirements. This is also a resubmission on the
19 part of the administration. Under current law Medicare
20 contracts with intermediaries and carriers to perform
21 basically the business of day-to-day operational work with
22 respect to the Medicare program -- for example, reviewing
23 claims and making program payments -- this proposal would
24 increase the Secretary's discretion in entering into
25 agreements with the Medicare claims processing agents by

1 eliminating the right of institutions to nominate an
2 intermediary, by permitting the Secretary to enter into
3 various kinds of agreements not solely based on cost, and it
4 would allow for some competitive agreement, for example, and
5 it would broaden the Secretary's authority to experiment with
6 different kinds of contracts by including contracts other
7 than fixed price or performance incentive contracts, and by
8 permitting a waiver of competitive bidding requirements.

9 Item number 14, noted on page 15 of the handout, would
10 eliminate the funding for the end-stage renal disease
11 networks. Under current law there are networks provided for
12 which have been designated to perform a variety of functions
13 in connection with the end-stage renal disease program,
14 including the collection of data, criteria and standards for
15 quality patient care. They often are involved in discussions
16 with patients in providing them information on the program.

17 The proposal would eliminate the funding for the
18 end-stage renal disease networks and make the national
19 end-stage renal disease medical information system
20 discretionary with the Secretary.

21 This proposal was also a resubmission on the part of the
22 administration, and there are currently 32 networks in
23 operation throughout the country.

24 Item number 15 located on page 16 of the handout would
25 provide for an elimination of the requirements for a Railroad

1 Retirement Board carrier contract. Under current law, the
2 Railroad Retirement Board is permitted to contract with
3 carrier or carriers to handle the Medicare Part B payments
4 with respect to individuals who are retirement beneficiaries
5 of that system.

6 That contract has been negotiated with the Travelers
7 Insurance Company in the past which has served as a
8 nationwide carrier. The proposal would eliminate the
9 requirement for a separate Railroad Retirement Board carrier
10 contract and would provide for negotiation with carriers in
11 all areas with respect to beneficiaries under this aspect of
12 the program. That is also a resubmission on the part of the
13 administration.

14 Page 17 provides for the beginning of the descriptions of
15 the Medicaid provisions. The first again is a resubmission
16 on the part of the administration and would require nominal
17 cost sharing by Medicaid beneficiaries. Current law permits
18 but does not require states to impose nominal cost sharing on
19 all persons for all services, with certain major exceptions.
20 For example, the states may not impose charges on children
21 under 18, persons institutionalized in long-term care
22 facilities. They cannot charge for pregnancy-related
23 services, family planning services and supplies, emergency
24 services and services furnished to the categorically needed
25 and the health maintenance organizations. They may also

1 choose to exempt certain other individuals.

2 This proposal would mandate the states to provide for
3 additional cost sharing charges: for the medically needy, \$1
4 per visit; for a physician, clinic and outpatient services
5 for the medically needy, \$1.50 per visit; for those same
6 services for the categorically needy, \$1 per day for
7 inpatient services; and for the medically needy, \$2 per day
8 for inpatient hospital services.

9 The states would continue to be prohibited from imposing
10 co-payments on services provided to long-term care patients
11 or furnished by HMOs to the categorically needy.

12 Item number 2, located on page 18, would improve
13 third-party collections on the part of the Medicaid agencies
14 and would provide for a retention of administrative costs
15 associated with third-party recoveries. The states currently
16 can recover against third parties because Medicaid, of
17 course, is the payer of last resort, and as such is often
18 able to recover amounts from medical assistance payments made
19 on behalf of individuals. This would strengthen the ability
20 of the Medicaid agencies to perform that function.

21 Item number 3 on page 18 would provide for 100 percent
22 federal payment of processing of combined Medicare and
23 Medicaid claims. Under current law the claims for
24 individuals who are eligible for both Medicare and Medicaid
25 are processed by both the Medicaid fiscal agent and the

1 Medicare carrier. This would provide for 100 percent federal
2 reimbursement for the combined processing of the Medicare and
3 Medicaid claims by Medicare contractors hoping to avoid that
4 additional step and also having Medicaid agents perform that
5 same function.

6 Item number 4, located on page 19, would extend the
7 current reductions in federal payments to state Medicaid
8 programs. Under Public Law 97-35 we provided that whatever
9 federal matching payments the state is otherwise entitled to
10 would be reduced by 3 percent in 1982, 4 percent in 1983, and
11 4 1/2 percent in 1984.

12 A state could qualify for an offset of those reductions
13 through a number of means, including the establishment of a
14 hospital rate control program, or if it had an unemployment
15 rate, for example, which exceeded 150 percent of the national
16 average, they could also recover some funds on the basis of
17 their fraud and abuse activities.

18 The administration proposal would extend the reductions
19 and offset provisions indefinitely at a rate of 3 percent for
20 fiscal year 1985 and beyond. The current rate, as I
21 indicated, is 4.5 percent, and so it would reduce it to 3
22 percent and then maintain it in the out years.

23 The additional items that are noted are simply the impact
24 of changes in other programs on the Medicaid program, and a
25 regulatory initiative with respect to third-party liability

1 collections, which is the result of child support enforcement
2 activities.

3 On page 21 of the handout there is described the
4 legislative initiative suggested by the administration with
5 respect to the maternal and child health services block grant.

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1 The Chairman: Could I ask, on the regulatory
2 initiatives, third party collections, is that a savings?

3 Mr. Donnelly: Yes, sir. That regulation is going in the
4 Federal Register I think within the next week.

5 The Chairman: Will we get credit for that as a savings
6 if we put it in the reconciliation?

7 [Laughter.]

8 Mr. Donnelly: I do not see why not.

9 I think we went through this a couple of years ago.

10 Ms. Burke: Yes, we have some history of having done that
11 before, Senator.

12 The Chairman: Yes, I think we did do that.

13 [Laughter.]

14 Senator Danforth: Mr. Chairman, I wonder if I could
15 inquire as to what our procedure is going to be. As I
16 understand it, you do not intend to have any votes today, and
17 what we are doing now is to go through this book and look at
18 some possibilities for complying with the reconciliation
19 instructions?

20 The Chairman: That is correct. There were some members
21 who indicated they wanted an opportunity, at least, if they
22 had questions to raise questions. So it seemed to me we
23 should have the Administration down and have an opportunity
24 to go through the list. And there may be some other
25 suggestions for spending reductions, and it is my hope that

1 maybe -- I am not certain what day next week, Wednesday or
2 Thursday -- we might be able to meet and see if we can agree
3 on some spending reductions.

4 Senator Danforth: Mr. Chairman, with respect to
5 Medicare, we have before us a list of some 15 specific
6 proposals for cost savings, and it is my understanding that
7 these 15 proposals are made solely for the purpose of
8 complying with the reconciliation instructions, and that they
9 do not go to the bigger question of what we are to do to save
10 the Medicare program.

11 The Chairman: That is right.

12 Senator Danforth: What is the status, if I could ask
13 either you, Mr. Chairman, or the staff or the Administration,
14 of our efforts, if any, with respect to the Medicare?
15 Clearly, we have a well-known disaster toward which we are
16 heading, and are we going to do something sometime to avert
17 the disaster, or do we just sort of go at this one day at a
18 time?

19 The Chairman: Let us hear from the Administration and
20 see if they have any immediate plans.

21 Mr. Donnelly: Well, as you are well aware, Mr. Chairman,
22 and as I think I shared with Senator Danforth a couple of
23 weeks ago, the proposals that are put forth here are not only
24 solely for the purposes of assisting you in the
25 reconciliation initiative, but because we think they are

1 sound policy for laying a better base for the ultimate set of
2 recommendations.

3 And they will be dramatic, and would have to be dramatic
4 to resolve the Medicare difficulties in the latter part of
5 this decade or the early part of the nineties, depending upon
6 the economic assumptions and the things that actually
7 happen..

8 As you know, the Social Security Advisory Council
9 continues to meet. They have floated a number of
10 recommendations, not only to officials in our Department but
11 to the Congress and members, the leadership and others as
12 well, to say, comment on these, give us your thoughts. We
13 are moving towards putting together some kind of a report in
14 the fall that addresses these rather broad-scale
15 initiatives.

16 Obviously, whatever among those proposals or others that
17 the Congress, that this body and the Administration come up
18 with, the earlier we address that the better it is going to
19 be, and that is one of the other purposes of these
20 proposals. If you begin to use prudent policy now, you have
21 some measurable impact on outlays in the '88, '89, '90 time
22 frame, but if you delayed making any kind of initiative until
23 then you are really looking at a cliff and kind of a
24 precipice.

25 So it is a dual approach. It is not an easy solution,

1 but you have got to do both/and rather than either/or.

2 Senator Danforth: Well, Mr. Chairman, I just wanted to
3 state, to repeat my concern. I do not think we are avoiding
4 any cliff by what we are doing today, by what we are
5 considering today. I think the cliff is there. I think that
6 we as a country are marching head-long toward that cliff. I
7 think maybe we are extending the march by a few inches and
8 that is it.

9 I further believe that, with respect to the whole process
10 of not only saving Medicare but getting the budget itself
11 under control, this business of coming up with long lists of
12 \$20 million, \$50 million, \$11 million items, is really
13 heading nowhere. I think that we are getting ourselves
14 bogged down in details, and when the sum of those details are
15 added up we are going nowhere, either in getting the budget
16 under control or saving Medicare.

17 And Senator Boren and I have a couple of proposals. We
18 are not going to debate them today because we are not going
19 to be voting today, but I have often been told that you
20 should tell them what you are going to tell them, tell them,
21 and then tell them that you told them. So I will just
22 preview them very briefly.

23 One proposal will be the so-called CPI minus 3 proposal,
24 and that is between 1985 and 1988 to adjust indexing formulas
25 for tax purposes, '85 being the first item that tax indexing

1 would go into place; and for entitlement programs,
2 non-means-tested entitlement programs, instead of indexing
3 them at the full consumer price index, instead the formula
4 would be CPI minus 3 percent.

5 And we have discussed that before. It will be discussed
6 again next week. We will bring it up next week in the form
7 of an amendment or an offering on the reconciliation
8 process.

9 We also have a more general position that we are going to
10 be bringing up and bringing to a vote, and it has to do with
11 really the philosophy of what we are involved in and the
12 process that we are undergoing. I think the important thing
13 to do is to recognize the truth, and in order to do that the
14 effect of the resolution will be to express the sense of the
15 Senate that it is not possible to reduce the deficit below
16 \$150 billion per year unless we reduce the growth rate of
17 entitlement programs and at the same time increase tax
18 revenues above what is now built into the law.

19 And the wording of the resolution will be, it is the
20 sense of the Senate that:

21 One, the federal budget deficits now expected to occur in
22 the 1980's pose serious threats to America's economic
23 future;

24 Two, the deficits cannot be brought into manageable size
25 solely by a strong economic recovery, a reduction in defense

1 spending, and reduced spending for discretionary domestic
2 spending programs;

3 And three, the achievement of federal deficits reduced to
4 levels that do not threaten America's economic future will
5 require (a) increased tax revenues and (b) slower growth of
6 non-needs-based federal entitlement programs.

7 I think that the problem is, Mr. Chairman, that we on the
8 Finance Committee and we in the Congress and we in the
9 country have fooled ourselves by the laundry list concept.
10 And the problem with the laundry list concept is that all of
11 us want to engage in wishful thinking that we are not going
12 to be on the laundry list, the laundry list is somebody else,
13 somebody else's taxes will be increased, somebody else's
14 program will be cut, somebody else's little fine-tuning will
15 be accomplished. Why, if we hold the line on Congressional
16 pay that will solve the problem of the budget, or if we
17 strike some program on the defense budget, or one thing or
18 another.

19 And all of that might be important to do, but the fact of
20 the matter is the numbers are not there. And what we have
21 done by focusing on all of these details is to distract
22 attention from the more difficult question of what to do
23 about huge deficits that cannot be really seriously reduced
24 by any laundry list that anybody could come up with.

25 And I think that it is time to put to the American people

1 the basic question: Are they all -- I mean all except the
2 very poor. Are all of the American people willing to chip in
3 a little something? And that is the idea of CPI minus 3
4 percent, a little something, whether they are recipients of
5 federal programs or whether they are taxpayers paying in to
6 the Federal Government. Are they willing to make some
7 relatively small sacrifice for the good of their country?

8 And it seems to me that as long as we keep on with this
9 laundry list approach, we are putting off that question and
10 we are deluding the American people that there is some
11 laundry list which from the standpoint of any particular
12 individual citizen will avoid that citizen, will not include
13 that citizen.

14 And therefore I just wanted to state, Mr. Chairman, again
15 -- and I will be stating it again next week with Senator
16 Boren -- that we do intend to push for a much broader
17 approach.

18 Senator Long: Would you yield at that point?

19 Senator Danforth: I would.

20 Senator Long: I think the Senator is right and I think
21 that one of the things that you are going to have to do to
22 achieve what you are talking about is to close off all of
23 these open-ended programs. We voted on this Committee, I
24 think, to shut off the open-ended a while back, and in
25 conference we could not make it stick. But I believe we are

1 going to have to shut off the open-ended.

2 And you have a whole lot of things in here where you hope
3 to save money, but if you have an open-ended program you save
4 something here and they just spend it somewhere else. So I
5 think you need to, one, go after the open-ended part of it
6 and shut that off. And then you have got to tell everybody,
7 well, you have got to take your share of the cut.

8 Now, every state -- just one example -- has been forced
9 to cut back on their social welfare spending because they
10 simply did not have enough money to keep it up. What did
11 they do? Every one of them started putting people to work.
12 You would be surprised how if the people have to work for
13 money, how all of a sudden there is not that much demand for
14 the money if they have to do some work for it.

15 I am not talking about putting anybody in any kind of
16 back-breaking work. I have been going around here with a bad
17 back from picking up rocks on the mountainside where I have a
18 cabin. Why do I do it? Because I cannot get anybody else to
19 do it.

20 So I am just saying that we are just talking about
21 getting people to do something to help earn their own keep.
22 That reduces the pressure just for a handout if you require
23 they do a little bit of work for it. Now, the governors
24 turned to that when they found that they just did not have
25 enough money to go around, so they had to ask people to do

1 something to help earn some money.

2 And if you put -- if you shut off the open end and then
3 have a reduction, an across-the-board cut on everything, mind
4 you, including us -- I have been making speeches down there
5 in Louisiana telling people that I have never seen a
6 government where you could not get enough money to operate,
7 including mine. Somebody sent up a question and said, well,
8 why did you spend that much money to begin with?

9 And I have not been spending that much. I have been
10 turning back anywhere from 10 to 20 percent. But even then,
11 I could get by with less if I had to, and so could everybody
12 else, I would think.

13 But it is not going to help just to put this on the
14 Congress. It has got to go across the board. Everybody has
15 to participate. Otherwise you are not going to get there.
16 But I think you have got the right idea. We are not going to
17 get there just by trying on these little nickel and dime
18 items, not when you are trying to pick up on nickel and dime
19 items \$30 billion, \$40 billion, \$50 billion.

20 Senator Danforth: The nickel and dime items have the
21 effect of avoiding political controversy for ourselves. Not
22 that little groups are not interested in fighting them, and
23 they do. I mean, witness withholding or anything else. You
24 can get into a hornet's nest with any particular group of
25 people.

1 But that hornet's nest with respect to a particular group
2 is still easier for us to manage than if we were to say to
3 virtually everybody in the country, hey, you have got to
4 sacrifice for your country.

5 But my guess is that if we were to put that to the
6 American people, as Kennedy did in his inaugural speech or as
7 Churchill did to the British people in the Second World War,
8 if we were to say that to the American people, if we were to
9 say, your country is in trouble -- a \$1.3 trillion national
10 debt is trouble -- your country is in trouble; do you believe
11 that you should be a part of the answer, do you believe that
12 you should make some sacrifice for the country, or in the
13 alternative do you believe that you have it coming? Do you
14 believe that you have your right, your entitlement, your
15 right to have it coming?

16 And I would bet the American people would be willing to
17 say, we are willing to do our part for the country. But I
18 think we have to ask them to do it, and we are never going to
19 ask them to do it with this laundry list approach, never
20 ever.

21 In fact, it creates the impression of unfairness. Every
22 time we create lists of specific items where somebody is
23 going to be affected by it, but not everybody, people say,
24 well, that is unfair, we are not going to do it, we do not
25 want to do it.

1 Senator Bradley: Would the Senator yield just for a
2 question?

3 You have been very specific about what we do on the
4 entitlement side and you have said that on the tax side that
5 we would have CPI minus 3 on indexing. Do you envision
6 anything else?

7 I have not read your proposal. Do you envision anything
8 else on the revenue side other than minus 3?

9 Senator Danforth: Let me tell you honestly how I view
10 the CPI minus 3 idea. I view it as one of any number of
11 interchangeable approaches to the same thing. I do not think
12 that it is necessarily the best idea at all. Probably
13 anybody could think of any number of ways to make the same
14 point, that it is a combination of both spending and tax
15 increases that will get this deficit under control.

16 The numbers you come up with in CPI minus 3 amount to
17 only about, oh, \$120 billion over four years, something like
18 that. I do not have it in front of me right this second. So
19 it is a fraction of the problem. It does not address
20 Medicare. That obviously has to be dealt with, and I am sure
21 there are other things that might have to occur.

22 But I think that this kind of approach, while it is not
23 the whole answer, is the sine quo non. I think that without
24 this kind of approach we are not going to hit the numbers.

25 Senator Bradley: Well, I tend to agree with you that if

1 you did kind of an across-the-board approach and you affected
2 everyone and you asked for equal sacrifice everywhere, that
3 you would have a more credible program than if you asked it
4 in some places. And that is why I raised the question about
5 how much you intend to get on the revenue side of the \$123
6 billion that you say you would get by the CPI minus 3.

7 I mean, over a three or four-year period, I cannot
8 conceive that that comes equally from indexing CPI minus 3
9 versus entitlement reductions CPI minus 3. And that is not
10 to make that point, but we eliminated indexing and we get \$9
11 billion. So I mean, the CPI minus 3 has got to have a
12 disproportionate reduction in spending than it does an
13 increase in revenues.

14 Senator Danforth: It is just about 50-50. I am sorry I
15 do not have my sheet in front of me now. I certainly will
16 next week.

17 But as I recall, it is \$57 billion over four years in tax
18 increases and \$60 billion on spending reductions. It is
19 slightly more in spending reductions than in tax increases,
20 but it is very close to the same.

21 And the point that I would make by making it about the
22 same is that as a political matter I do not think that
23 Republicans would go along with trying to just raise taxes in
24 order to finance higher spending. On the other hand, I do
25 not think the Democrats would go along with affecting the

1 entitlement programs without a tax increase.

2 So politically, and along with the sense of the American
3 people, hey, why hit one half and not the other half, I just
4 do not think you could get it done. So the effort is to
5 really apply something across the board. And it would be
6 just about the same in dollars, give or take a few million.

7 Senator Bradley: The only direction I was taking was, if
8 you do something on the revenue side or the spending side,
9 that it has to be basically at least the same and it has to
10 be very clear. And while we are faced with a resolution in
11 which we are supposed to raise \$73 billion over three years
12 in revenues, the option there -- and that will be immediate
13 for us -- is do we do it with the whole laundry list of small
14 items, as we did last year, or do we do it with a rather bold
15 stroke, saying, look, we have got to raise the revenues and
16 therefore raise the tax in a way that does not affect this
17 group or that group, but affects everyone.

18 And it seems to me that is the direction that the logic
19 of your argument heads, and I think we ought to look at it.

20 The Chairman: I would just say that I know Senator
21 Danforth indicated, as did Senator Boren just a few moments
22 ago, or about an hour ago on the Senate floor, that he wanted
23 to discuss the same area you have discussed, and that you do
24 have one and maybe two amendments and maybe a flat-out
25 amendment and maybe a sense of the Senate.

1 But I do think there is some merit in looking at some of
2 these areas where there is obvious unfairness, whether it is
3 on the revenue side or if there are little loopholes, either
4 in Medicare or Medicaid. It appears to be a laundry list,
5 but I think you always have to put a little laundry, to keep
6 the laundry moving in even any broad thing you might do, to
7 sort of level out the playing field.

8 I mean, there are a lot of nice little breaks that some
9 people have in the Revenue Code and some have in Medicare and
10 Medicaid. There are a lot of people doing very well under
11 Medicare and Medicaid. And even though we look at some broad
12 approach -- I think Senator Danforth has a good idea -- even
13 though it is sort of nitty-gritty stuff and not very much
14 money, if somebody out there is getting \$55 million that they
15 should not receive, I think we ought to stop it.

16 But that does not indicate we can raise all the money we
17 need \$55 million at a time, or even \$250 million at a time,
18 as Senator Heinz suggested with the pacemaker business.

19 Well, obviously we will be meeting again, and I guess we
20 can go ahead and go through the balance of the book,
21 hopefully this afternoon, and then spend a couple of days
22 next week on the hard part.

23 Are you next, Sidney?

24 Ms. Burke: The only additional program in the area of
25 the health programs within our jurisdiction, Senator, is a

1 program that does not entail any suggested changes, and that
2 is the change in the maternal and child health block grant
3 program.

4 The Chairman: I think you are going to be able to go
5 through this a little more quickly than I thought, or maybe
6 more quickly than you thought.

7 [Laughter.]

8 Ms. Olson: Senator, there are six AFDC proposals which
9 have savings associated with them. All are listed on page
10 24.

11 The first proposal begins on page 27. It is a proposal
12 adopted by the Committee last year which excludes the needs
13 and incomes of a caretaker relative when the youngest child
14 reaches 16. This would end the benefit for the parent when
15 the youngest child reaches 16, and the child's benefit would
16 continue.

17 Number two is on page 28. This is also a proposal
18 adopted by the Committee last year, and it establishes that
19 the standard filing unit for AFDC families includes the
20 income of all related individuals and children in determining
21 the benefits for the family.

22 Number three, on pages 28 and 29, is a modification of a
23 provision adopted by the Congress last year. It would
24 require states to pro-rate for shelter and utilities when an
25 AFDC family shares a household with another family.

1 On page 32 and 33, 34 and 35, are described the changes
2 in the work program proposed by the Administration. They
3 first propose to repeal the WIN program. They propose to
4 have a mandatory community work experience program in each
5 state. They would require participation in the community
6 work experience program by both parents in an intact family.
7 They would require a job search, which is now optional with
8 the states.

9 An additional savings provision is on page 35 and 36, the
10 proposal adopted by this Committee last year which requires
11 minor parents of an AFDC child to live at home with their own
12 parents unless there are extenuating circumstances.

13 The last AFDC provision with savings associated is on
14 page 37, number nine, which would prohibit AFCD payments when
15 the eligibility is due to the absence of the parent who is
16 seeking employment.

17 The rest of the AFDC provisions have negligible or no
18 budget impact.

19 On page 41 is a description of the Administration's child
20 support enforcement restructuring proposal. I understand the
21 Administration has a new plan which Secretary Heckler
22 testified on today over in the House.

23 The Chairman: Is that plan reflected in our book?

24 Ms. Olson: It is not. It was just announced yesterday
25 and described today by the Secretary. This is their first

1 proposal.

2 On page 42 is the second proposal for child support
3 enforcement, which would mandate the states to have in place
4 several procedures which have been proven to save money in
5 the child support program. One would be a wage withholding.
6 The second would be inter-fund intercepts of the tax refunds
7 on the state level. And the third would be the establishment
8 of an administrative or quasi-judicial procedures to set
9 child support agreements.

10 On page 43 is the child welfare services proposal. The
11 Administration proposes to repeal the separate authority for
12 child welfare training grants and combine that with the child
13 welfare services portion of Title IV-B.

14 Senator, Mr. Donnelly would be willing to describe the
15 new child support enforcement and financing proposal, if you
16 are interested at this time.

17 The Chairman: I think it might be helpful. I know this
18 is an area that Senator Long is particularly interested in,
19 and I am sorry he is not here. But it would be helpful to
20 have it for the record.

21 Mr. Donnelly: Well, let me try to be brief, Mr.
22 Chairman.

23 In the child support area, as you know, there have been
24 some extensive discussions at the White House in which the
25 Secretary has been involved, and she testified this morning

1 over in the other body. We sent up the material yesterday to
2 this Committee that reflected on that.

3 The principal change from the proposal that was outlined
4 in the President's budget is that the Administration has put
5 forth a proposal that would in essence create a new incentive
6 pool out of three components: One is a reduction from 70
7 percent to 60 percent of the federal matching rate of the
8 state's administrative cost; two is repealing the 12 percent
9 AFDC bonus; and three is requiring a certain set of fees in
10 the area of non-AFDC participation at the state levels.

11 That incentive pool will be roughly \$200 million by our
12 estimates and will be divided essentially on parity or
13 equally among the states' activities in the AFDC and the
14 non-AFDC area as a reward for performance against certain
15 criteria that we expect to have some dialogue with this
16 Committee and others about as we set them forth.

17 But one of them will clearly be the legislative
18 initiatives that you see before you in the proposal that
19 Cindy read. Fundamentally, the important thing about that is
20 that it goes away from the net collections idea which the
21 state child support directors found so difficult, and they
22 testified before this Committee.

23 And the other thing is that in the fiscal year '84 it
24 does in fact by our estimates match the savings already
25 contemplated of \$66 million. In the out years those numbers

1 are still being discussed and reviewed. It is our clear
2 feeling that the behavioral changes that will take place in
3 the states will cause those numbers and those collections to
4 be as good or better as currently estimated.

5 The Chairman: I appreciate having that for the record,
6 and I would hope that the Administration -- do we have any
7 information now?

8 Ms. Olson: Yes, we do.

9 The Chairman: And if Senator Long has any specific
10 questions on that, I would hope that either Joe or Mike are
11 fully informed.

12 Okay.

13 Ms. Olson: An additional proposal in the foster care
14 area would freeze the funding at \$440 million, making the
15 program a closed-ended entitlement. That is described on
16 page 46.

17 On page 48 is the Administration's proposal to reduce the
18 funding level for the 1984 social services block grant to
19 reflect increased spending in that block grant as a result of
20 the Emergency Supplemental Appropriations Act.

21 The final savings provision in the income security area
22 is a supplemental security income provision dealing with the
23 recoupment of benefits paid under Title II.

24 The Chairman: Is that the windfall benefit?

25 Ms. Olson: Yes. That is on page 52.

1 The Chairman: Does that end the list?

2 Ms. Olson: Yes.

3 The Chairman: Caroline, did you say you had something in
4 social security, or this was it?

5 Ms. Olson: That was it, the SSI provision.

6 The Chairman: Does the Administration have any other
7 recommendations?

8 Mr. Donnelly: Not at this time, Mr. Chairman. I just
9 want to make sure that we brought you up to speed on the new
10 initiatives in the child support area.

11 The Chairman: Mr. Stern, do you have any spending cuts
12 in your pocket?

13 Mr. Stern: No, sir.

14 The Chairman: Or anybody else's pocket?

15 [Laughter.]

16 The Chairman: Okay. What is the schedule for next
17 week?

18 Mr. DeArment: We have a conference on Tuesday
19 afternoon. We have a hearing scheduled on Monday. But
20 otherwise --

21 The Chairman: So if we finish the conference on Tuesday,
22 we would have Wednesday and Thursday?

23 Mr. DeArment: That is correct.

24 The Chairman: I know there is a farm bill up.

25 Mr. DeArment: That is on the 28th.

1 The Chairman: Okay. We will stand in recess, but I do
2 hope that perhaps hopefully we can get some bipartisan
3 package put together on reductions. At least the effort
4 should be made, and we would hope that it would far exceed
5 the recommendation of the Budget Committee. That would be
6 one way to put that Committee out of business.

7 We will stand in recess.

8 [Whereupon, at 4:05 p.m., the Committee was adjourned.]

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