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EMBARGOED FOR RELEASE UNTIL
SATURDAY, MARCH 13, 1982
(12:00 Noon)

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REMARKS OF SENATOR BOB DOLE: FEDERATION OF AMERICAN HOSPITALS
LAS VEGAS, NEVADA -- SATURDAY, MARCH 13, 1982

I am pleased to have been invited to participate in this important industry meeting, and to have the opportunity to share with you my thoughts on the current state of the economy, and my concern with respect to the health care industry.

As I am sure all of you are aware, our current fiscal crisis, which is, I assure you, a real, not a fictitious, crisis, is forcing us to examine very carefully what health services we pay for, and how we pay for them. The problem becomes even more evident when we look down the road to a Nation with a growing population of elderly citizens and a medicare trust fund which is sure to go broke within a short period of time if we don't take appropriate action. In fact, the entirety of the Social Security System is in real trouble.

SOCIAL SECURITY

By any reasonable system of accounting, social security is faced with impending bankruptcy -- simply put, the inability to make benefit payments on time. There are, of course, some politicians, seizing on social security as a potentially explosive campaign issue, who are not convinced. But the facts speak for themselves and there is widespread agreement that the solvency of the system is in jeopardy.

The Social Security Board of Trustees, the Congressional Budget Office, and a wide variety of private actuaries and economists all report the same bleak outlook. Under any major set of economic projections, the OASI trust fund -- the one that pays 75% of all benefits -- would, in the absence of interfund borrowing, be insolvent within the next two years. Having paid out more than it took in over the last 7 years, the fund is expected to have a deficit on the order of \$60 billion in the next 5 years alone. Interfund borrowing, which is authorized through 1982 under recently enacted legislation, will certainly improve the immediate situation. It does not, however, deal with the fundamental problem -- the system's income is not likely to meet benefit costs throughout the decade.

Responsible Americans everywhere know the seriousness of the situation and the need to take steps now to shore up the system. Responsible members of Congress also recognize the need for action before the short-term crisis gives way to the equally acute long-term crisis.

Unfortunately, as we have seen, the use of social security as a political football made responsible, effective reform impossible last year.

The appointment by the President and the leader of the House and Senate of a bipartisan National Commission on Social Security will hopefully lead to a fresh examination of reform proposals which will not center on the favorite answer to social security financing problems in the past -- payroll tax increases. The National Commission is scheduled to issue its report and recommendations by December 31, 1982.

As a member of the Commission, I look forward to working on the tough issues with a diverse group representing business, labor and the legislative branch. Given the highly charged political atmosphere surrounding social security last year, I certainly hope the Commission will provide a new forum for constructive discussion of realistic reforms.

THE ECONOMY -- WHERE WE STAND NOW

The President's policies have just begun to take hold, and we have made dramatic progress on inflation, which dropped to 8.9 percent in 1981. That is the lowest since 1977. We must stay on the course. Returning to stability and prosperity will take time. High-tax, high-spending policies got us where we are - there is no hope if we return to that route. High interest rates in part reflect market skepticism in view of past policy flip-flops. Nevertheless, interest rates have shown a significant downward trend that must be sustained: 16% is a whole lot better than 21%. We have to show the financial community a consistent, steady course, keep spending under control, and keep in place the tax changes that encourage greater savings, work, and investment.

Economic Downturn

The resumption of monetary restraint, following a too-late attempt by the Carter administration to gin up the economy, has combined with long-term problems in autos, housing, and other sectors to induce recession. There is sound reason to expect a decisive upturn this year.

No one deliberately induces recession. But major shifts in policy can bring unsteadiness in the economy as we make the transition. The only alternative is the inflation roller-coast, accompanied by stagnation.

The President's program should leave the economy well poised for recovery and stable growth. For once changes in tax and fiscal policy will be timed to aid growth while inflation is being wrung out of the economy. We can improve our chances by acting promptly to moderate projected deficits.

A Growing Economy

By 1985 the administration expects the economy to grow from \$2.8 trillion to \$4.6 trillion. Such growth means a better ability to finance our defense needs and critical social programs, without taxing the life out of the economy.

If we have slower growth, then we have to reexamine our options. CBO and the administration are in basic agreement on economic trends: this is the time to strike a prudent, but optimistic, balance. But clearly \$100 billion deficits are unacceptable, economically or politically.

The 1983 Budget

The President has recommended spending cuts and management changes saving over \$40 billion in fiscal year 1983. Even those who prefer a different mix of cuts must agree that the overall level of spending cuts is the minimum we should do, in face of triple-digit deficits. Congress must cooperate, but we believe no area is exempt from cuts, even defense: while I agree that defense shouldn't be a scape goat, absorbing all the cuts; neither should it be a pig, absorbing all the spending.

It is clear we will have to raise some revenues, as the President acknowledged by recommending \$32 billion in loophole-closings and administrative tightening over 2 years. We should raise revenues only for the goal of offsetting the deficit. It is not an excuse for avoiding spending cuts: we have found that higher taxes do not balance the budget so long as Congress is always inclined to spend more.

The projected deficits--\$98.6 in 1982, \$91.5 in 1983, \$82.9 in 1984--are too high. But if we do nothing, the figures will be worse. In addition, the numbers do show a steady downward trend in the deficit as the economy expands. That is the goal we have to achieve. Remember, the steady decline in

inflation is one of the major reasons why the deficits are larger. Inflation is expected to drop to the 4% range by 1984.

Future Agenda for Tax and Fiscal Policy

Revenues

The thrust of future tax legislation will be to eliminate abuses and obsolete incentives and improve tax administration and collection. The 1981 Tax Act showed this trend, with the closing of the commodity straddle loophole.

The administration proposes raising \$32 billion over 2 years by tightening in these areas, and by new enforcement devices. Depending on the size of spending cuts we can agree to, Congress may want to increase the number of tax proposals considered. I for one am very interested in addressing what is known as the underground economy.

The IRS estimates that \$70 to \$80 billion is lost annually through noncompliance with the Federal income tax laws.

The proposal I introduced to address this issue falls into four principal categories.

First are measures which improve the operation of our information reporting system: Second, the bill provides a new system of penalties when taxpayers refuse to comply with the information reporting system or the general tax laws. Third are proposals to increase the level of IRS resources to enable the IRS to do the job we expect of it. Fourth, a progressive voluntary withholding system is applied to pensions.

I believe the bill represents a dramatic departure from prior strategies to deal with the rapidly growing compliance gap. Without imposing broad based withholding and without a massive increase in audit coverage, the bill will substantially increase compliance with the federal tax laws. The bill offers a balanced package, weighing taxpayers' interest in a limited paperwork burden and in privacy with the clear need to collect revenues. Our efforts to narrow the projected budget deficits and maintain confidence in the integrity and the equity of our federal tax laws should insure that these proposals receive attention.

Entitlements and Social Programs

Reform of basic entitlements programs will be necessary to hold budget in line. Between 1970 and 1981, entitlements other than social security rose 412%.

A quarter century ago, entitlements formed 22% of the Federal Budget. Today, they're 48%. One department alone, one all of you are very familiar with, Health and Human Services, spends more money than every country in the world, save the U.S. itself and the Soviet Union. 95% of HHS's \$284 billion budget is entitlements.

It is safe to say that Federal health programs - which make up about one seventh of all nonmilitary spending - will continue to be a highly visible target for reductions. To be perfectly frank, skepticism is in abundant supply on Capitol Hill as to whether or not the health care industry itself can really moderate its costs. Certainly the voluntary effort for containment has failed to live up to its promise.

I, for one, firmly believed that your industry would prove that the government does not need to regulate all markets to assure reasonable and responsible prices. I believed the initiation of the voluntary effort was not solely in response to the Carter cost containment proposal, but showed honest concern from the industry, and an acknowledgement that you were also

responsible in part for finding a solution to the problem of rising costs that faced us.

However as we all know, health care expenditures in 1980 accelerated at a time when the economy as a whole exhibited sluggish growth. The 9.4% share of the GNP taken up by health care expenditures was a dramatic increase from the 8.9 percent share in 1979.

Health care expenditures amounted to \$1,067 per person in 1980, making the nations health bill a whopping \$247.2 billion. Hospital care accounted for 40.3 percent of this spending. In 1981 hospital costs rose about 19 percent.

On Tuesday of this past week, Secretary Schweiker testified before the Senate Finance Committee on budget cuts affecting HHS. While there was some disagreement over the specifics, and the design of some of the cuts, there appeared to be tremendous support for reductions, or at least a slowing, in the rate of growth of health care costs -- especially hospital costs. You may think 1981 was a tough one for health programs, but 1982 looms as a period of even tougher reductions.

Medicare's most recent projections anticipate 1982 expenditures will reach almost \$50 billion. Medicaid will cost the Federal government close to \$19.9 billion. I just don't see this Administration, nor the Congress for that matter, standing by while costs increase at nearly double the general rate of inflation. There is going to be a day of reckoning unless there is some relief in this area -- the public will demand it.

The competition proposals, when we finally receive them, may indeed lead us toward long-term reform in our financing system. And while all of us support competition in concept -- and may well support many of the specific proposals put forth by the Administration and by my colleagues like Senator Durenberger -- none of us believes these proposals will provide us immediate savings. And it is immediate savings, in addition to long-term reform, that we need.

During this past week's hearings, I heard for the first time in a long time members talking about placing caps on the medicare program -- particularly on the hospital side. Such proposals have been raised again, I believe, because of the frustration we are all feeling.

I, like you, believe the time is long overdue for some major reform in the method of reimbursement for hospitals. Medicare should be both a fair and efficient purchaser of services. Simplistic, across-the-board cuts may provide short-term savings, but we desperately need long-term solutions.

The good news is that the government has finally recognized the problem; the bad news is that we are going to try to do something about it.

PROSPECTIVE REIMBURSEMENT

I agree that we should move ahead on the development of a prospective reimbursement system. Secretary Schweiker is also proposing prospective reimbursement. That's the good news.

The bad news, at least for some hospitals, is that if the government is going to be a prudent buyer and fulfill its responsibility to the taxpayers of this country, it will have to place a proper test of reasonableness of a given hospital's costs in relation to what similar costs are in comparable hospitals.

Responsible prospective reimbursement, in my mind, is not paying hospitals in advance whatever they want to charge or even a percentage of what they want to charge. Such a method of

payment would only further fuel the inflationary fire in hospital costs.

One giant step toward a responsible prospective reimbursement system would be the expansion of section 223 limits to total hospital costs. Adjustments would be made for an unusual case mix which required a greater intensity of services than was general among the other hospitals with which a particular hospital is being compared.

Under such a system, only the high cost, inefficient hospitals would be penalized and even these hospitals could avoid being penalized if they brought their prices in line with other hospitals.

Once we know the dollar amount for which a given service is generally available, then we can begin to pay that amount prospectively to hospitals. If a hospital can provide the service for less through better management and administrative efficiencies, then it should be allowed to profit from its efficiency. Such a system of reimbursement would encourage cost moderation and to recognize and reward efficiency in providing proper care and services.

PRIVATE SECTOR ALTERNATIVES

I believe we must continue our examination of opportunities for the private sector insurers to retain their relationship with older individuals who continue to work after 65, and even for those who retire. I believe that we should use private sector alternatives to the extent that they can meet the needs of our elderly. Government programs should be reserved for needs that cannot be met by the private sector. Of course as with any change in this area, we are aware of the possible creation of disincentives to hiring the elderly.

COPAYMENTS

Discussions related to altering the copayment arrangements under Medicare have surfaced in the last few months in the context of discussions on budget cuts. While I believe in the value of cost sharing as a way to make individuals conscious of the cost of health care, we must be sure that the Nation's elderly, who are already subject to substantial deductibles and copays under Medicare, are not required to bear an unreasonable financial burden.

However, there are ways to establish reasonable cost sharing. For example, with respect to home health care -- the average number of visits is about 20-22. A copayment starting at the 20th visit might discourage overuse while not discouraging people from using this cost effective treatment modality.

PHYSICIAN REIMBURSEMENT

Physician reimbursement will not be overlooked in any attempt to reduce medicare expenditures. But here as in many areas, we must take care not to discourage health care providers from caring for Medicare beneficiaries.

An examination of the specialty differential and the variations between physician charges for similar services is long overdue. While physician fees have grown at a slower rate than hospital costs, there are still changes that need to be made again to reinforce our position as an efficient purchaser of services.

MEDICAID

In the area of Medicaid, I expect further consideration of State requests for flexibility. Attention will also be given to the implementation of the 1981 changes in the hopes of

identifying areas where changes are necessary and appropriate. Of course, I am sure there will be a spirited discussion on the larger issue of whether the program should be federalized.

However, the massive reshuffling of Medicaid and other major programs is a complex undertaking, one that could produce some pitfalls. It is vital that any reorganization of major programs guarantees that needy Americans continue to receive essential services and assistance.

CONCLUSION-

I look forward to working with all of you in meeting the challenges that face us. As I noted earlier, change is coming. I continue to believe that the private sector solutions to our problems are preferable to Federal intervention. Help to prove me correct.

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