OUTLINE OF REMARKS

American Academy of Family Physicians

Saturday, April 23, 1983

Kansas City, Kansas

- It is a real pleasure for me to be with you this morning and have an opportunity to share with you some of my concerns about our economy generally, and about the health care sector specifically.

- The American Academy of Family Physicians represents a group of professionals in our society devoted to the efficient and effective delivery of quality health services to families. In fact, in many ways you are today's version of the old country doctor of years past. It is vital for us to work together to address many of the issues that will be facing us over the months and years ahead so as to assure the continued availability of your important services.

- It is particularly fitting that you have gathered here in the heartland of America for your meeting. In a predominantly rural State like Kansas where access to care is still very much an issue, the family physician has been, and will continue to be, of enormous importance to our citizens.

- Ours is clearly one of the best health systems in the world. It is in all of our best interest that it function on a reasonable and cost effective basis.

- But before discussing health care, I'd like to spend a moment or two giving you an overview of where we are generally with respect to the economy and our fight against inflation.

The Economy

- Prognosis. We have to realistically assess the state of the economy and the prospects for the next few years. The fact is that the groundwork has been laid for a stable and lasting recovery, without renewed inflation. It is absolutely crucial that we proceed with care at this point, and not throw away the gains already made.

- No one should doubt that we are making progress. In February the index of leading economic indicators jumped 3.6 percent--the biggest one-month rise since 1950--followed by an increase of 1.4 percent in February. In addition, the "concurrent indicators" of current economic

performance have risen .8 percent in the last two months, showing we are in recovery.

- Inflation was cut to 3.9 percent in 1982, from 12.4 percent in 1980. This is the lowest inflation rate since 1972. And the trend is continuing: consumer prices are rising at an annual rate of just 0.4 percent so far in 1983.

- Interest rates are down and still falling. The prime rate is down to 10 1/2 percent, way down from the 21 percent that prevailed when President Reagan took office. Home mortgage rates are down 3 points since last year. Long-term rates for business loans are off 3 to 4 points from a year ago.

- Government spending growth rate is down to 11.2 percent this year from 17.4 percent in 1980. The 1983 budget resolution projects the growth rate of government to fall to 7.5 percent by 1985.

- Lower taxes with major improvements in tax equity will help buoy the recovery, both on the consumer side and on the investment side. The combined effect of the 1981 and 1982 tax bills has been to lower individual taxes over 3 years by $344 billion, as well as improve compliance and tax fairness. Lower individual rates boost personal income and restore incentive, while favorable capital cost recovery rules should spur investment.

- In March, industrial production was a strong 1.1 percent; housing starts are up 75 percent over last year; the stock market is at all-time highs, up 400+ points over last August. These are tangible evidence of recovery.

- Unemployment. The March drop in unemployment to 10.3 percent is major good news, and the decline has not been reversed, although there may be a few "blips" upward. Unemployment, of course, remains the major negative in the economic picture. High unemployment has to come down and stay down without inflationary stimulus--that is what we have failed to do in the past.

- Clearly there is a bipartisan consensus for more jobs. But resuming the inflationary policies of the past will not create lasting jobs, just an illusion of prosperity that leaves us worse off the next time we try to get "off the wagon."

- That means the most important thing we must do is judge carefully the degree of stimulus the economy can and should take, consistent with a firm anti-inflation policy.

The Federal Reserve will play a key role, and has already shown a willingness to adjust its short-term goals based on an assessment of the weakness of the economy. We will not allow the recession to continue, but we will not reinflate the economy, either.

o While the main emphasis must remain on the long-term goals of growth with low inflation, there are steps we can take in the short term to deal with the plight of the unemployed. Many things have already been done:

- A new Federal supplemental unemployment compensation program was passed with the 1982 tax bill, providing additional unemployment benefits to about 2 million workers in 38 States. The House and Senate have agreed to extend this program through September 30.

The President signed into law the new Job Training Partnership Act, which emphasizes training for permanent employment rather than make-work jobs. New initiatives outlined by the President focus on the long-term unemployed, youth, and on training or relocating displaced workers who lost jobs due to plant closures or force reductions

- The targeted jobs tax credit, which was extended for 2 years by the 1982 tax bill, gives employers a real incentive to hire the disadvantaged--about 600,000 workers are certified under the program

- The administration's enterprise zone legislation, reported last fall by the Finance Committee, can provide us with an experiment in private-sector job creation in depressed areas, through a combination of Federal tax incentives and State and local efforts to target an area for development with regulatory and tax relief, neighborhood participation, and capital and other improvements

- The 5¢ per gallon gax tax increase can create over 300,000 jobs by funding much needed repairs and construction of the Federal highway system.

The Deficit and Interest Rates.

o All our economic difficulties are, of course, related--high interest rates and slow growth boost the deficit, and higher deficits create greater uncertainty in the business community as to our future course; will there be more inflation, or less credit available for business expansion?

- Because of this, it makes sense first of all to chart a path that is most likely to bring stable growth without inflation. Higher growth boosts revenues and cuts unemployment costs, thereby reducing the deficit as well: already, upward revisions of growth estimates are being made in light of the economic indicators.

- In the short term, as the President urges, it makes sense to continue to review every part of the Federal budget in an effort to bring the deficit down. This means both defense and entitlements must be under scrutiny to maximize the efficiency of every dollar spent. A balanced deficit reduction program is still our goal: the Budget Committee will produce a budget resolution some time this week.

The Budget: The House and the President

- We all know that developing a credible, deficit-reducing budget for 1984 and beyond is going to take a lot of hard work and give and take on all sides, Democrat and Republican, liberal and conservative. The President has made his proposal, the House has adopted a radically different alternative, as has the Senate Budget Committee. We are likely to end up with a mix of all three, but we ought to consider for a moment who is closer to the mark in terms of the vital needs of our economy and in terms of natinal priorities.

- Senate resolution. The Senate Budget Committee completed action on a budget plan late Thursday afternoon. In order to break a deadlock the Republican members of that committee agreed to, what I believe, is an unwise and perhaps disastrous position on revenues. The proposal as passed by the committee would require us to raise $121 billion in taxes over the next three years. At the same time we would have to reduce expenditures by approximately $42 billion. The medicare portion of this $42 billion equals about $3.4 billion over 3 years, while the medicaid reductions would be about $1 billion over the same time period.

- House resolution. The House-passed budget resolution, engineered by the Democratic leadership, simply is not a credible plan for meeting our priorities and achieving sustained economic growth. The House recommends a $30 billion tax increase in FY 1984 alone. That is not only an unreasonable increase in the tax burden as we come out of a recession, it can only mean that House Democrats want to repeal the third year of the tax cut for the working people. Reneging on promises is no way to run the

government, and that proposal must be rejected. Even the members of the House Ways and Means committee have expressed strong doubts that any more than $8 billion in revenue can or should be raised in 1984.

- o Defense spending. The President has recommended a 10 percent real increase in defense spending, and the House recommends a mere 4 percent increase. We all know that defense, like every area of the budget, will have to assume a fair share of the burden of deficit reduction. But surely we ought to take more seriously the President's concern about our national strength vis-a-vis the Soviet Union. We can and probably will have to modify the President's defense request, and the President will have to deal with both the Senate and the House leadership if we are to get agreement. We do have to get more out of each defense dollar spent. But the House-proposed increase is not wise, reasonable, or in the national interest.

- o Domestic spending. There is widespread agreement that we cannot let the burden of deficit reduction continue to fall on benefits for lower-income Americans. But that does not mean domestic spending is untouchable--it can and must be reduced, something the Democratic budget fails to acknowledge. The House resolution provides $25 billion more for nonmilitary spending than does the President's budget. $6 billion of that difference is in the health area: and certainly we have reached the point where we should acknowledge that Federal health program costs are not under control, and that changes to control costs are very much in order. The American people do want to share the cost of reducing the deficit in a fair way. But they do not want national security risked, or the tax burden on individuals raised to an unconscionable degree, just because some members of Congress do not want to reexamine programs that may have outlived their usefullness or have become grossly inefficient. Instead, let us work together, and with the President, to reach a bipartisan agreement like that worked out on social security.

This brings me to our discussion of health care.

CURRENT ISSUES

- o Today any broad discussion about health care quickly evolves into a narrower discussion about health care costs. This is true of not only medicare and medicaid, but of any payment source. Needless to say, how we pay for services plays an important part in these discussions.

Health Care Costs

- Health care expenditures amounted to $1,225 per person in 1981. 42.7 percent of these dollars came from public funds. The government has recognized the medical cost problem since the early 1970's, but recognition of the problem has not brought about agreement on the solution.

- In 1982, through the Tax Equity and Fiscal Responsibility Act, we asked that cost savings be borne by all parties to the medicare program--hospitals, doctors, and beneficiaries. However, because we felt that cost savings imposed on physicians could all too easily translate into a burden on beneficiaries, most physicians were not affected by the changes we made. So in that sense, physicians represent an opportunity for additional cost savings for 1984. Indeed, we are committed to examining physician reimbursement in detail--seeking out changes that result in savings without reducing access to care or unreasonably increasing out-of-pocket expenses for beneficiaries.

Physician Reimbursement

- Physicians have made a tremendous contribution to the medicare program. In examining their reimbursement, it is not our intention to punish, but rather to seek out incentives to encourage assignment and to encourage the efficient use of services.

- As the most influential group in the health care industry, and as those who are among the most highly paid professionals in the Nation, physicians should assist us in the very important task of reforming the reimbursement system and reducing the rate of growth in the medicare program.

- There are really three major issues at stake with respect to physician reimbursement:

  (1) how we determine what we medicare will pay,

  (2) how we encourage physicians to take assignment and

  (3) how to help beneficiaries to identify physicians that take assignment.

- With respect to how we pay, there is some interest in a DRG-like payment model for physicians. Obviously this will take some time to consider and evaluate. The reason for such a system would be to create for physicians the same incentives we hope to create for hospitals, incentives to provide care more efficiently.

- There is also a desire to begin to recognize more fairly the services provided to patients which are cognitive and not simply technical in nature. This is particularly true for physicians like yourselves. Many physicians have complained that we only pay them for tests and exams, and never for the time spent simply talking with a patient. A DRG-like payment system sets an amount of payment per case; it is then the physician's decision how best to utilize those dollars.

- I don't mean to suggest that DRG's are the only answer, or that they will suit every situation. But it seems to me that in many cases, for example, surgery, or long term management of a hypertensive patient, some form of comprehensive payment may make sense.

- With respect to the assignment issue, there is obviously a desire to increase the number of physicians willing to take medicare payment as full payment. We are interested in hearing what you suggest in the way of incentives. Clearly simply paying more money is one option, but at a time when we are trying to reduce the rate of growth in medicare, it doesn't seem very likely.

- The overall budget and the pending insolvency of the medicare trust fund will force us to look to medicare again this year for some savings. I'd like to make changes that not only save money, but also make sense.

- The important thing to keep in mind during these budget discussions is the terrible problems faced by medicare if no changes take place. If you think we faced serious deficit problems with the social security cash program, you're in for a big surprise when you look down the road at medicare's future. Using the current optimistic assumptions, medicare could literally go broke sometime toward the end of the decade, perhaps as early as 1988.

Beneficiary Cost Sharing

- The value of increased cost sharing is obviously going to be an issue this year. Medicare beneficiaries, along with any other patients, should be made sensitive to the high cost of care, but this is not much help unless the patient can do something about it. Price sensitivity makes sense where the beneficiary's decision to seek medical care is his or hers to make and it does not cause needless delay in seeking needed care. Cost sharing can be useful and is appropriate in many instances, but we must use caution.

- The idea of cost sharing to deter unnecessary utilization and dampen spiralling health care costs is by no means a

resolved issue. There are those who strongly favor it, as well as those who oppose it, believing that it defeats the goal of making health care accessible.

- The Administration has suggested increased medicare cost sharing with a new protection against catastrophic costs. Certainly this proposal warrants our review. Catastrophic health care costs are a tremendous concern to the elderly, and coverage of these expenses might mean a great deal to many. However, the proposal would result in increased costs to a great number of beneficiaries and reduced costs to very few.

- The Administraton has also recommended the creation of a medicare voucher allowing individual beneficiaries to purchase private insurance in lieu of Federal medicare coverage. Obviously this is a radical change in the way medicare works and should be reviewed with caution. There is a potential for a number of negative side effects, including tremendous adverse selection leaving the medicare program with the sickest population and the highest costs, while at the same time paying for vouchers for people who are not utilizing services. In addition, it is not clear that a voucher set at 95 percent of the average cost of caring for a medicare beneficiary could purchase the same level of coverage in the private sector as is available through the medicare program. There are a great many additional questions that would have to be answered before we could agree to such a suggestion.

- One other option we may consider in examining ways to alter cost sharing is increasing the part B premium for those elderly individuals with relatively high incomes. As you recall, we made changes this year with respect to the social security retirement program that would provide for taxing the benefits of wealthier beneficiaries. A change in the part B premium could be seen as consistent with this move.

Health Benefits for the Unemployed

- We know that the majority of the labor force in the United States is covered under group health insurance through their place of employment. This coverage is generally inexpensive because group coverage is substantially less in cost than individually-purchased insurance, and because the employer frequently pays most or all of the premiums.

- As a result of the unusually high rates of unemployment in the United States today, many Americans have lost coverage under their former employer's group health plan, generally within

one or two months of being laid off. At a time when they can least afford it, laid off workers must turn to nongroup coverage and that coverage is more expensive and often less comprehensive than that which was provided through their employment. The simple fact is that they cannot afford such coverage and they certainly can't afford the cost of care when it is needed--particularly when that care requires a hospital admission.

The Focus of Our Efforts

- The purpose of the bill which I recently introduced, and which was the subject of Finance Committee hearings this past week, is to provide some protection to those individuals who are not able to finance the purchase of private coverage during a period of unemployment and have no other coverage available to them.

- This is not a bill which creates a program of national health insurance. It is not a program designed to address the needs of every individual who does not currently have health care coverage.

- It is a program designed to assist those who are currently out of work and need some limited assistance to get them through this difficult time. The bigger problems will have to be addressed at some time in the future, but our inability to deal with them now, because of our current fiscal crisis, should not stop us from addressing the problem in some limited fashion.

- Our proposal uses both the public and the private sector in addressing the problem.

Public Sector Provisions

- Under the proposal I introduced, Title XX of the Social Security Act would be amended to provide that certain unemployed workers and their immediate families would be eligible for inpatient and outpatient hospital services, physician services (except for nursing home care) and prenatal and post-partum care. Coverage under the program which would be State administered, would be voluntary on the part of the States, and voluntary on the part of unemployed workers (and their dependents).

- The program would begin on June 1, 1983, with all States entitled to at least 80 percent, and no more than 95 percent, Federal matching payments to finance the program through September 1983. Beginning on October 1, 1983 only States with insured unemployment rates (determined on the basis of a 3-month moving average) at or above 4 percent could elect to

continue to receive Federal matching at 80 percent. States with insured unemployment rates at or above 5 percent would receive Federal funds at a 95-percent matching rate.

- The program would end on May 31, 1985, with any fund allocation balances remaining available for 6 months to finance program benefits for those still on the eligibility rolls.

- The two-year program will cost $1.8 billion in 1984 and 1985. $750 million would be available for each of the two 12-month periods the program is in effect to pay for benefits. $150 million would be available in each period for program administrative costs.

Private Sector Provision

- In providing some limited public sector assistance for unemployed individuals, we also expect the private sector to continue its efforts to help fill the gaps in coverage.

- Our proposal solicits the active support of private employers by subjecting employer-sponsored health benefit plans to a loss of 50% of the deduction for employer-provided health care costs if they fail to provide an open enrollment for a specified period of time for persons to change from self-only to family coverage, or to commence coverage for the employee and the employee's family.

- You, as the primary providers of health care to the average family, are capable of playing a very important role in helping alleviate this problem by providing treatment to unemployed persons with no health coverage at lower rates.

- I am very encouraged by the efforts that have already been initiated by physicians across the country to provide care to these individuals. However, there are also a large number of other medical services that are critical for unemployed uninsured persons--for example, hospital services. It is still unclear what type of voluntary efforts can be undertaken to assure the availability of a full range of health services for such persons. Indeed, I do not believe a voluntary effort alone can alleviate the problem.

- What we are striving for is a proposal that utilizes the best aspects of the private sector, including voluntary efforts, in addition to a limited Federal role.

- I believe action must be taken quickly. There are people out there who are not receiving needed health care, and it is our responsibility to try to assist them.

Conclusion

- The months and years ahead must not be dominated by rigid ideologies on either side--but neither can the President or the Republican leadership be expected to cast aside the principles of Government the American people so soundly endorsed in 1980. Those principles--a more restrained Government, a freer economy, greater accountability to the American people--are as valid today as they ever were then and there is no indication that the people have changed their commitment to these same principles. Guided by these principles, we will try to work together to build on the sound foundation for recovery that has already been laid, and revise a health care system that will survive into the future and not bankrupt the Nation.