REMARKS OF SENATOR BOB DOLE

AMERICAN DENTAL ASSOCIATION

AMERICAN DENTAL POLITICAL ACTION COMMITTEE

PUBLIC AFFAIR'S CONFERENCE

Wednesday March 28, 1984

L'Enfant Plaza Hotel
Washington, D.C.

Why worry about the deficit--What does it mean to the average American?

- If nothing is done to reduce deficit spending over the next five years, the total Federal debt will nearly double to over $10,000 for every man, woman and child in America.
- At this level, by 1989 it will take one-half of all Americans' personal income tax payments just to pay the Federal Government's interest bill.
- By 1989 the annual Federal interest cost will amount to $250 billion--about $1,100 for every American.
- That $1,100 per person interest cost is equal to 40% of each person's annual expenditure for food.
- Virtually all economists agree that the sustained enormous deficits that we are facing will be economically harmful.
- Many Americans will find home-buying more difficult with higher deficits. Consider a family purchasing a home at today's current interest rate, averaging about 12-1/2%, with a $55,000 mortgage. If the deficits push interest rates up, total interest costs over the 30 year term will be $15,500 more for each one percentage point increase.

What is the Federal deficit likely to be?

- The estimates of future Federal deficits are quite sensitive to one's economic assumptions. Yet even under the most optimistic of economic assumptions, the deficit will remain at historically high $200 billion levels over the foreseable future, unless drastic action is taken.
- Assuming an extemely strong recovery (4% real growth of GNP) is sustained over the next few years and all of the Administration's proposed spending cuts and revenue proposals are enacted, the deficits are still projected to be:

FY 1985	FY 1986	FY 1987	FY 1988
$180 billion	$177 billion	$180 billion	$152 billion

- o If economic growth is not so strong (3% real GNP growth) and interest rates are slightly higher (9% T-bill rate), and Administration's spending cuts are <u>not</u> enacted, the projected deficits would be:

FY 1985	FY 1986	FY 1987	FY 1988
$202.6 billion	$236.7 billion	$270 billion	$290.1 billion

- o If we have an economic downturn during this period, we may be facing $300 plus billion deficits.

<u>Deficit downpayment in 1984</u>

- o The President took the lead to begin a deficit-reduction effort in 1984 by calling for bipartisan negotiations on a package to reduce the deficit by $100 billion over 3 years. Now he has worked with congressional Republicans to outline a $150 billion package including defense savings ($40 billion), nondefense cut ($43 billion), revenue increases ($48 billion), and debt service savings ($18 billion). As the President suggests, we can work with a variety of modest spending reductions, and tax reforms that raise revenue, to enact a significant deficit "downpayment" in 1984.

- o Last year the bud get process stumbled over the issue of spending versus revenue, because the budget resolution called for a large tax increase--$73 billion over three years--but only very modest restraints on spending. There is a lesson be learned here. Balance is essential, compromise is necessary, and no one segment of the budget is adequate to the task where the deficit is concerned.

- o Even though election-year politics makes it difficult to launch the kind of major assault on the deficit that we really need, that is no reason to do nothing. Making a noticeable dent in the deficit will make our job easier in the years ahead. Even more importantlyu, it will demonstrate that we <u>can</u> face up to the deficit problem even in an election year.

o The Finance Committee has agreed on spending and revenue options just within its jurisdiction that achieve about $74 billion of the "downpayment" goal. To do that we are drawing on a number of proposals that have been on the table for some time, including some already in the legislative "pipeline":

-Items included in the FY 1984 reconciliation bill, S. 2062, which awaits Senate action,

-Treasury-endorsed proposals on tax shelters and other abuses,

-Administration-proposed spending cuts that were not followed through on last year,

-Administrative savings and other proposals made by the Grace Commission, and

-Additional proposals considered in the Finance Committee last fall

o <u>Target</u>. With an overall goal of $150 billion in savings, we can achieve $21.4 billion from revenue changes pending in S. 2062, $3.8 billion in spending reduction from Finance Committee programs in S. 2062, $3.1 billion from Grace Commission recommendations, $9.6 billion in debt service savings, and the remainder from additional spending and tax changes aimed at desirable policy reforms.

<u>The Tax Cap as Health Policy Reform</u>

o A cap on the exclusion from income of employer-provided health insurance, the so-called"tax cap" is a reform which makes sense from the standpoint of health policy. It is a reform which the Committee considered but did not adopt as part of its deficit reduction package.

o The total exclusion from employees' income for employer paid medical coverage is the second largest, statutory fringe benefit in the tax code. (The largest is the exclusion from income of pension contributions and earnings.)

o The revenue loss estimate for this total exclusion from income is estimated to be $21.3 billion in FY 1984.

o Many experts believe that our present tax treatment of employer-provided health benefits has been a contributing factor in the trend toward excessive coverage and escalating medical costs. According to a recent study, corporate medical plans are costing employers more than $1000 per employee--with some plans costing as much as $3500 per worker.

- o A tax cap could encourage lower costs and more efficient health care. It is a proposal which deserves further consideration. Perhaps the cap should be tailored to specific items such as dental care and eye care. This would address the concerns raised about limiting the availability of preventive and cost-effective benefits under a flat tax cap.

- o With or without a tax cap, I believe it is essential that businesses begin to examine their medical benefit plans. Deductibles, copayments, utilization review, stop loss coverage, and preferred provider arrangements are some of the cost reduction techniques being used today. They deserve the consideration of each and every employer and the support of health care providers such as yourself.

Medicare Solvency

- o The cumulative projected deficit in the HI trust fund is so large -- $300 to $400 billion by 1995 -- that to maintain solvency will require substantial policy changes. To bring the hospital insurance program into close actuarial balance, either outlays will have to be reduced by 30 percent or income increased by 43 percent.

- o Increased beneficiary cost sharing, hospital cost reductions, and higher payroll tax rates are but three options likely to be considered by the Congress to close the gap between revenues and outlays.

- o Cutting benefits or raising taxes -- a dilemma that paralyzed social security reform for years. Medicare will be no easier to deal with, but deal with we must. As medical technology advances and longevity increases, the amount of money that the Nation could spend on health care is almost boundless.

- o Some would argue that the problem with increasing costs is not the fault of the elderly or disabled, but rather the physician who orders the services, or the fact that we are biased in favor of institutional care over home care. Clearly the responsibility for the program's problems must be shared, as should the solution.

- o There are those who have already begun to press for the establishment of a new Presidential commission to address these issues. I would argue that first we ought to allow the Congress an opportunity to do what it is here to do. in my view, we should revive the bipartisan spirit that marked the success of the social security rescue plan.

- o In considering changes in medicare, our desire is not to simply cut another program. It is rather to protect one of the most important programs we a Nation offer our citizens.

- In solving the medicare crisis and the crisis on health care costs I believe that we need to consider all possible options. These include Democratic proposals, the recommendations of the Advisory Council on Social Security, and recommendations from other sources. We should not limit our options, nor should we allow ourselves to think of the various options as mutually exclusive. The solution we may adopt will very likely reflect variations of several different options, each thought by someone, at some time, to be a solution in its own right.

- In early April, the Finance Committee will hold a hearing during which the Social Security Advisory Council will present to the Committee their recommendations regarding medicare. This hearing will provide us the opportunity to begin to examine all the options in earnest.

- You may recall that in the 1983 Social Security Amendments the Congress not only authorized State hospital cost control systems but required the Secretary to approve requests for such State systems if certain conditions are met. We continue to learn from the existing state hospital cost control systems, and are likely to learn more as additional options are tried, but I'm not sure we're ready to hand over total control to the States.

United States Senate

COMMITTEE ON FINANCE
WASHINGTON, D.C. 20510

March 28, 1984

M E M O R A N D U M

TO: SENATOR DOLE
FROM: FINANCE COMMITTEE STAFF
RE: SPEECH TO THE AMERICAN DENTAL ASSOCIATION

You are scheduled to give the luncheon address at the American Dental Association (ADA) Public Affairs Conference this afternoon. The Association expects about 175 dentists from throughout the country to be in attendance including two dentists from Kansas; Dr. Carl C. Schmitthenner, Executive Director, Kansas Dental Association and Dr. Roger C. Krase, Representative of the Kansas Dental Association.

The ADA represents approximately 122,000 dentists from around the country, and has become increasingly active in public affairs over the last few years. There are a great many issues which interest the dentists including: inclusion of their services under Medicare and Medicaid, continued support of Federal financial aid programs for dental students, and opposition to public financing of congressional campaigns. However, of all the issues with which they are concerned, the so-called "tax cap" on health insurance is the most important to them.

With respect to the "tax cap" the dentists have argued tht dental services are not the cause of health care cost inflation. These services have only recently been included in employee benefit plans and have not increased in cost nearly as quickly as other health services. The ADA is concerned that if a cap is placed on the tax free employer contribution, dental services will be among the first to be dropped.

We have included in your talking points comments on the "tax cap" and your proposal to carve out dental and optometric services.

In addition to your comments on the current status of the tax cap, the members of the ADA are interested in hearing your views on the present state of the economy, the battle over the budget, and anticipated congressional activities through the end of the year in the areas of health care and taxation.

Hal Christensen, Director of the ADA Washington office will be there to meet you and is responsible for the invitation. He sent along a copy of their program which we have also attached to this memo along with your talking points.

March 23, 1984

PRELIMINARY ESTIMATES OF THE SENATE FINANCE COMMITTEE PACKAGE

SPENDING	1984-87 Total (Savings in $ billions)
Reconciliation (S. 2062)	
Finance Committee provisions	3.8
Additional Spending Reductions	
*Part B Premium	0.4
*Delay in Initial Eligibility for Medicare	0.6
Working Aged	1.1
*Physician Freeze	0.8
Hospital Market Basket	1.1
Lab Fee	0.9
Medicaid Reduction	1.4
Alcohol Rebate	0.9
Revaluation of Assets	0.3
Lesser of costs of charges	0.3
Competitive Bidding/Claims	0.1
Round Part B Payments	0.2
SNF Rates	(0.1)
Grace Commission	3.1
Debt Service	9.6
Total	24.5

	1984-87 Total (in $ billions)
Reconciliation Tax Provisions (S. 2062)	21.4
Additional Revenue Items:	
Tax shelter, accounting abuse, and corporate reform	10.2
Tax Federal Home Loan Mortg. Corp.	0.3
Tax benefit rule	0.8
Alcohol and tobacco collections	0.5
Freeze ACRS expensing, ITC for used prop. and foreign income exclusion	1.9
Postpone finance lease rules	2.7
Extend telephone-excise tax	3.2
Modification of Sec. 1231	0.2
Factoring of trade receivables	1.4
Source of shipping income	0.2
Recharacterization of U.S. income as foreign source income	0.3
Trust distributions	0.7
Income averaging modification	1.6
Delay in ESOP	0.4
Corporate preference exclusion increase	0.5
Increase distilled spirits tax	1.0
Deferred rent on real and taxable property	1.7
Repeal dividend reinvestment	0.4
Installment sale recapture rule	0.2
20-year life for structures	4.2
Other miscellaneous revenue increase proposals	2.6
Major Revenue Loss Provisions:	
Spousal IRAs	-.9
Enterprise zones	-1.3
R&D credit extension and expansion	-2.0
R&D foreign source allocation	-0.2
Targeted jobs tax credit	-1.6
Life insurance tax change	-1.3
Earned income tax credit	-0.4
Mortgage revenue bond extension-IDB package	-0.6
[illegible]	$48.1