HIGHLIGHTS OF THE PRESIDENT'S MEDICARE REFORM PLAN

Medicare Savings	Approximately $100 billion over 5 years; $138 billion over 6 years.
Medicare Trust Fund	Extends the solvency of the Trust Fund to 2007 through a combination of scorable savings and programmatic and structural changes.
Beneficiary Provisions	Extends current law that sets Part B premium at 25 percent of program costs. This policy achieves $10 billion in savings over 5 years. The Part B premium would go below this percentage without this change after 1998; the expenditures associated with the reallocation of some home health expenditures are excluded from this calculation.
	Invests in preventive health care to improve seniors' health status and reduce the incidence and costs of disease. The plan covers colorectal screening, diabetics management, and annual mammograms without copayments, and it increases reimbursement rates for certain immunizations to ensure that seniors are protected from pneumonia, influenza, and hepatitis.
	Establishes a new Alzheimer's respite benefit starting in 1998 to assist families of Medicare beneficiaries with Alzheimer's and related diseases.
	Buys down excessive outpatient copayments to the traditional 20 percent level. Because of a flaw in reimbursement methodology, beneficiaries now in effect contribute a 46 percent copayment. Our policy will prevent further increases in copayments and reduce the copayment to 20 percent by 2007.

Adds Medigap protections (such as new open enrollment requirements and prohibitions against the use of pre-existing condition exclusions) to increase the security of Medicare beneficiaries who wish to opt for managed care but fear they will be unable to access the Medigap policy of their choice if they decide to return to the fee-for-service plan. (This provision is consistent with bipartisan legislation pending before Congress.)

Provides new private plan choices (through new PPO and Provider Service Organization choices) for beneficiaries.

Provider Impact

Hospitals

Through a series of traditional savings (reductions in hospital updates, capital payments, etc.), achieves about $33 billion in savings over 5 years.

Establishes new provider service organization (PSOs), which will allow hospitals (and other providers) to establish their own health care plans to compete with current Medicare HMOs.

Establishes a new pool of funding, about $11 billion over 5 years for direct payment to academic health centers to ensure that academic health centers are compensated for teaching costs. This is funded by carving out medical education and disproportionate share (DSH) payments from the current Medicare HMO reimbursement formula.

Managed Care

Through a series of policy changes, the plan will address the flaws in Medicare's current payment methodology for managed care. Specifically the reforms will create a national floor to better assure that managed care products can be offered in low payment areas, which are predominantly rural communities. In addition, the proposal includes a blended payment methodology, which combined with the national minimum floor, will dramatically reduce geographical variations in current payment rates. Medicare will reduce reimbursement to managed care plans by approximately $34 billion over 5 years. Savings will come from three sources:

(1) Because HMO payments are updated based on projections of national Medicare per-capita growth, when the traditional fee-for-service side of the program is reduced, HMO payments are reduced. The savings from this is $18 billion over five years;

(2) The elimination of the medical education and DSH payments from the HMO reimbursement formula (these funds will be paid directly to academic health centers). Savings from this proposal are $9 billion over five years; and

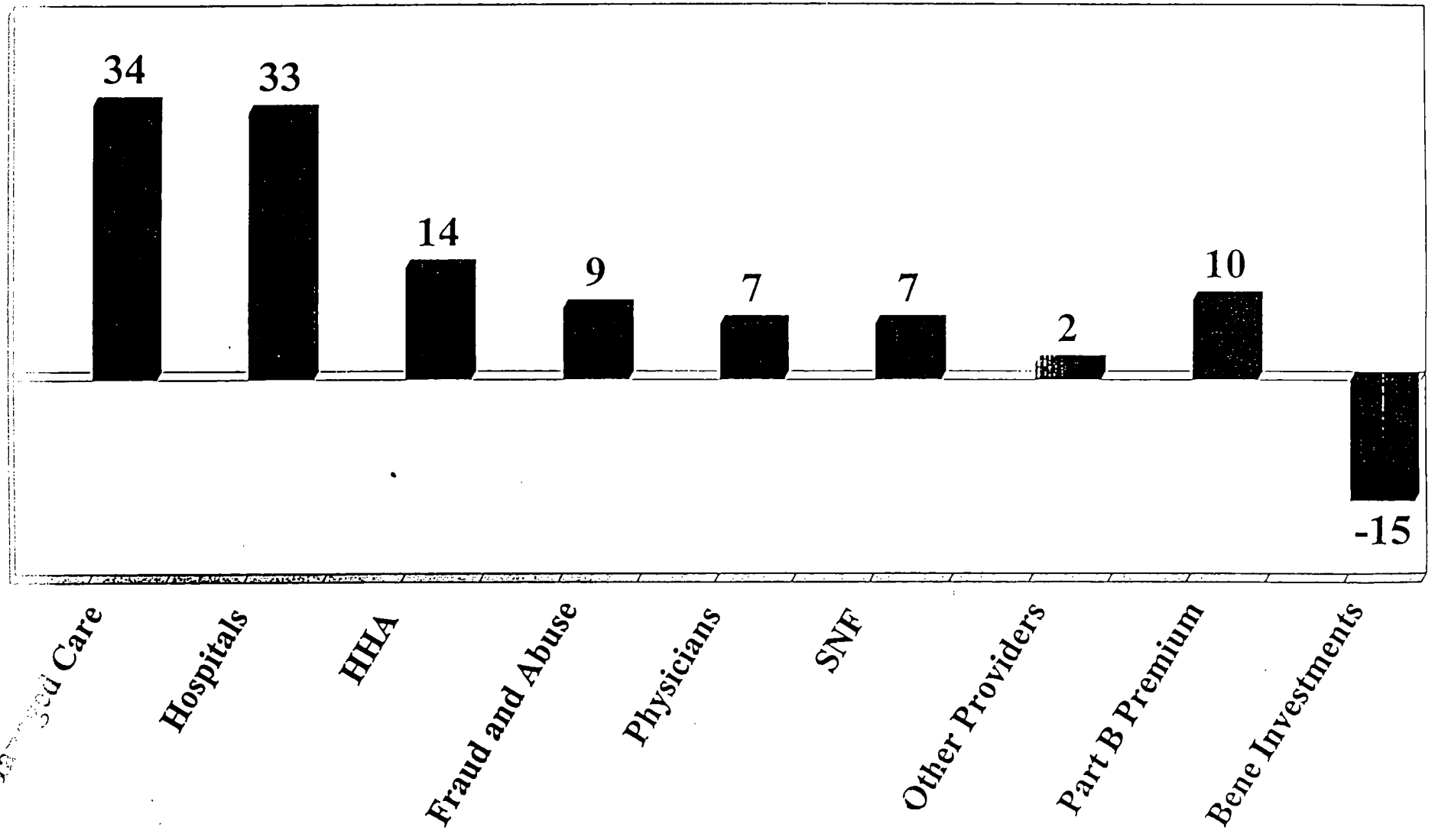
(3) A phased-in reduction in HMO payment rates from the current 95 percent of fee-for-service payments to 90 percent. A number of recent studies have validated earlier evidence that Medicare significantly overcompensates HMOs. The reduction does not start until 2000 and it accounts for a relatively modest $6 billion in savings over 5 years.

Home Health Care

Saves about $14 billion over 5 years through the transition to and establishment of a new prospective payment system.

Home Health Expenditure Reallocation	Home health care has become one of the fastest growing components of the Medicare program, growing at double digit rates. Originally designed as a post-acute care service under Part A for beneficiaries who had been hospitalized, home health care has increasingly become a chronic care benefit not linked to hospitalization. The President's proposal restores the original split of home health care payments between Parts A and B of Medicare. The first 100 home health visits following a 3-day hospitalization would be reimbursed by Part A. All other visits -- including those not following a hospitalization -- would be reimbursed by Part B. The restoration of the original policy will not count toward the $100 billion in savings in the President's plan. The policy avoids the need for excessive reductions in payments to hospitals, physicians, HMOs, and other health care providers while helping to extend the solvency of the Part A Trust Fund. See additional provisions under Fraud and Abuse which save $1.3 billion over five years.
Physicians	Saves about $7 billion over 5 years through a modification of physician updates. This reduction is relatively small because Medicare has been relatively effective in constraining growth in reimbursement to physicians.
Skilled Nursing Facilities	Saves about $7 billion over 5 years through the establishment of a prospective payment system.
Fraud and Abuse	Saves about $9 billion over 5 years through a series of provisions to combat fraud and abuse in areas such as home health care, by requiring insurers to provide information about insurance coverage of beneficiaries, and by repealing the provisions Congress enacted last year that weaken fraud and abuse enforcement.

Distribution of Medicare Savings
FY 1998 President's Budget
FY 1998 - FY 2002



THE PRESIDENT'S LATEST MEDICARE PROPOSAL DEMONSTRATES HIS COMMITMENT TO REAL REFORM AND MEETS THE REPUBLICANS HALFWAY.

	Republican 1996 Proposal[1]	President's Current Proposal[2]	President's 1996 Proposal[3]
6-YEAR	$158 Billion	$138 Billion	$116 Billion

[1] 1996 Proposal (April 1996 baseline). Six-year period is FY 1997-FY 2002. (Medicare savings stream as reported in the Senate Budget Resolution Report, 5/13/96).

[2] HCFA Actuaries' Estimates. Six-year period is FY 1998-FY 2003. **The additional savings come from a range of policy changes, but the most notable increase in savings comes from managed care and home health care.**

[3] 1996 Proposal (April 1996 baseline). Six-year period is FY 1997-FY2002. ("CBO's Estimates of the President's Budgetary Proposals" in "The Economic & Budget Outlook: FY 1997-2002").