Welfare reform provides States with great flexibility to ensure that welfare is a transitional system, rather than a way of life. Along with this new authority and flexibility, the new statute holds states more accountable for program performance. It includes a variety of provisions designed to ensure that states are moving people from welfare to work: penalties, performance-based funding, data collection and reporting, and research and evaluation.

On January 31, 1997, because of many states' requests for clarifications, we issued preliminary guidance concerning several issues of immediate concern, most notably the definition of which state expenditures count toward maintenance-of-effort. The guidance also addresses the definitions of "assistance," a key term in determining which expenditures are covered by certain rules, and "eligible families," a key term in determining which state resources count as maintenance-of-effort.

The Clinton Administration is committed to an effective implementation of this historic welfare reform law that transforms the welfare system into one with tough work requirements. We have a great deal of confidence in the states, and we believe that they will use the flexibility in the law to strengthen the focus on work. At the same time, the Department will use all its administrative authority to prevent states from using their flexibility to undercut the intent of the statute. We will collect all the information we can on how the states are using their dollars and we will take all the administrative actions in our power to ensure that state policies focus on work. We will also work with you and the Governors ~~in crafting a clarifying amendment to ensure that the work participation rates in the statute take into account overall State work effort, across State and Federal programs~~.

publicly report our findings.

To ensure that we have critical information which will enable us to determine whether the work and other legislative goals are being achieved, we will propose a change to the statutory provisions on data collection which will enable collection of information on recipients served by separate State programs that are used as MOE.

This guidance sets forth our best current interpretation of the statutory language on the fiscal and programmatic implications of different program configurations. However, we would consider a different interpretation in the final TANF regulation if we learn that the work provisions are being undermined during this interim period.

Also, we strongly advise States to think carefully about the risks to the long-term viability of their TANF program if they rely too extensively on separate State programs. Because States cannot receive Contingency Funds unless their expenditures within the TANF program are at 100 percent of historical State expenditures, excessive State reliance on outside expenditures for their TANF MOE may make access to Contingency Funds much more difficult during economic downturns.

Finally, we intend to work with Congress and the Governors in a bipartisan fashion to ensure that each State's overall work effort meets that statute's work participation requirements. Specifically, we will seek language making clear that calculation of whether a State has met the applicable participation rate shall take into account the State's success in placing participants in both TANF and MOE programs in work activities.

Child Support

In assessing the potential budgetary impact of this bill, Congress apparently did not envision major losses in the Federal share of child support collections. We are advising States not to set up separate State programs which retain what would otherwise be the appropriate Federal share of child support collections.

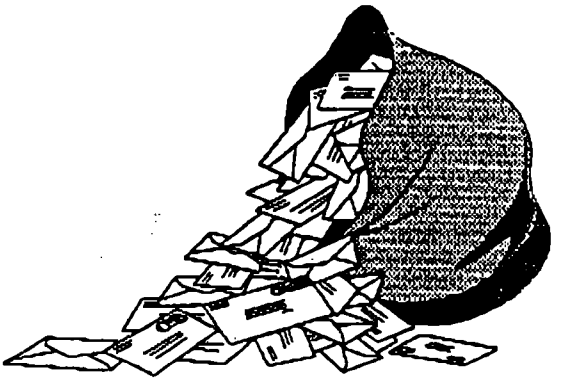
In order to track State practices in this area, as part of the regulatory efforts proposed above, we will seek to incorporate requirements for States to report child support information for families in State MOE programs, as well as TANF. Likewise, in our legislative proposal on data collection for recipients served outside the TANF program, we will be asking for authority to collect child support data.

We also intend to work with the Governors and the Congress to identify approaches that will ensure that States do not use the

OFFICE OF MANAGEMENT AND BUDGET

Legislative Reference Division
Labor-Welfare-Personnel Branch

Telecopier Transmittal Sheet



URGENT

FROM: Melinda Haskins **395-3923**

DATE: 2/10/97 **TIME:** 9:40 a.m.

Pages sent (including transmittal sheet): 10

COMMENTS: Here is the proposed OMB passback on the welfare-related portion of the Shalala testimony for HWM + Senate Finance. Please comment by 11a.m. today. Thank you.

TO: Ken Apfel
Bruce Reed
Elena Kagan
Diana Fortuna
Lyn Hogan

CC: Cynthia Smith
B. White
K. Tait-Emerson

PLEASE CALL THE PERSON(S) NAMED ABOVE FOR IMMEDIATE PICK-UP.

Welfare

It's the same way with welfare reform. When the President signed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, he made it clear that this was the beginning -- not the end -- of welfare reform. He made it clear that we all have a responsibility to come together and make this law work -- especially for our children. And, he made it clear that this was an opportunity for us to create a welfare system that requires work, promotes parental responsibility, and protects children.

Before welfare reform became law,

I'm proud of the progress we've made together. ~~With our waivers, we've~~ gave already ~~given~~ 43 states the flexibility they need to test innovative welfare strategies. Paternity establishments have gone up 50 percent since 1992. In 1996, we collected a record of over $12 billion in child support payments. And the tough new provisions in the welfare law are projected to increase child support collections by an additional $24 billion over 10 years.

The result? Because of the intensity of our efforts and because of the strength of our economy, welfare rolls have gone down by 2.5 million -- that's more than 16 percent since the President took office. Moving people from welfare to work, enabling them to support their families and maintain their independence -- that's the goal upon which all of us have always agreed. We are committed to combining all of the leadership, talent and resources possible to implement the new welfare law.

Let me briefly give you a progress report on our implementation of the new Temporary Assistance for Needy Families (TANF) program. Although states have until July 1997 to implement the TANF program, we have already given the green light to 35 states (as of 1/29/97) to begin their reforms. HHS has provided guidance indicating that States have flexibility in designing their TANF programs, but at the same time emphasizing the importance of moving families from welfare to work.

At the Federal level, we are challenging States to transform the very culture of the system from a welfare program to a work program. We must launch a national effort in every State and every community to make sure there are jobs for people making the transition from welfare to work. So they can leave the welfare rolls, they must have opportunities not only to find jobs, but to keep them.

religious institutions

Creating these opportunities will take a commitment from business and labor, from ~~churches~~ and communities, from officials at the federal, state, and local levels. And, it will take the bipartisan Congressional spirit that brought us this far -- and must continue to carry us down the road to success.

new

That is why the President's FY 98 budget contains a ~~comprehensive~~ welfare to work initiative. The President's proposal will help States and cities create new jobs, prepare individuals for them, and provide employers with incentives to create new job opportunities for long-term welfare recipients.

Insert (A)

The President's welfare to work investments includes a $3 billion Jobs Challenge designed to move a million of the hardest to employ welfare recipients into lasting jobs by the year 2000. It expands access to credit and enhances employer incentives to help long-term welfare recipients.

This is an exciting initiative in which many departments and agencies -- the departments of Treasury, Labor, Transportation, HUD, and others -- have joined together to further the President's firm commitment to make welfare reform a reality. At HHS, we will be using all the means at our disposal to help families go to work and become self-sufficient.

As I indicated earlier, the hallmark of this welfare law is the broad flexibility it gives states to design innovative reforms that address their unique challenges. We are confident that States will use this considerable new flexibility and the President's new initiatives to strengthen their focus on work as well.

We will be monitoring state performance and, pursuant to the statute, ranking them accordingly. We will be identifying and studying the high performers and the low performers, tracking child poverty, and providing an overall assessment of the legislation's impact on children and families.

INSERT A (replaces paragraph at top of p. 25)

To help welfare recipients move from welfare to work, and to help communities help them do so, the President proposes two new initiatives: A Welfare-to-Work Jobs Initiative to help States and cities create job opportunities for the hardest-to-employ welfare recipients; and a greatly enhanced Work Opportunities Tax Credit to provide powerful new private-sector financial incentives to create jobs for long-term welfare recipients.

The Welfare-to-Work Jobs initiative would provide $3 billion in mandatory funding over three years for job creation and placement to move a million of the hardest-to-employ welfare recipients into lasting jobs by the year 2000. We will encourage States and cities to use voucher-like arrangements as they deploy these funds, to empower individuals with the tools and choices to help them get jobs and keep them.

Under the enriched Work Opportunities Tax Credit for hiring long-term welfare recipients, employers could claim a tax credit of 50 percent of the first $10,000 in wages paid to these hires. For the purpose of determining the amount of the credit, wages may include the cost of training, medical insurance, and child care.

I:\data\hhstest.212

We will look closely at how states comply with some key statutory requirements, including child support enforcement, work participation rates, maintenance of effort, and data reporting.

We also will assume major new responsibilities for compiling and disseminating information. As the number of options continues to grow, states will need better information about these options, and the Congress will need better information to assess how effectively federal funds are used.

I know that several members of Congress have suggested a wait-and-see approach to the new welfare system. They advise that state implementation should be carefully reviewed before undertaking major policy changes to the TANF program. Our Department has proposed a number of technical and conforming changes to the TANF program that I believe maintain the spirit and intent of its policies.

Our Administration believes that welfare reform has always been -- and must always remain -- a bipartisan issue. But, just as we came together to make work and responsibility the law of the land, we believe it is time to come together again to ensure that the centerpiece of welfare reform remains a real effort designed to find work for everyone who is able to work.

Insert (B)

V The President's FY 1998 budget makes good on his promise to correct provisions that were included to save money, and which burden States and punish children and the disabled who cannot work. We are pleased that the governors, in a NGA resolution last week, agreed - we must not balance the budget on the backs of States or legal immigrants.

Our budget would restore a safety net of SSI and ~~Food Stamps~~ Medicaid for legal immigrant children and for legal immigrants who become severely disabled after entering the country. It would also extend from five to seven years the time period in which refugees are eligible for assistance after they enter the U.S. -- so that they have enough time to overcome the hardships they have faced and to become citizens ~~self-sufficient~~. And it would delay the Food Stamp ban on legal immigrants ~~by 3 months~~ until the end of FY1997 in order to give immigrants more time to naturalize.

(C) Overall, our proposals strengthen our commitment to a new welfare system focused on work and responsibility while addressing the concerns of State and local officials and restoring benefits to those who can't work - particularly children and the disabled. We must give all Americans a hand-up and get on with the real business before us; reforming our welfare system together.

Mr. Chairman, the budget I have discussed today discards tired old solutions and meets our challenges creatively and cooperatively. It balances the budget, without abandoning our values and commitments.

The Nation should protect legal immigrants and their families -- people admitted as permanent members of the American community -- when they suffer accidents or crippling illnesses that prevent them from earning a living.

Insert [redacted] (B):

When the President signed the Welfare Reform bill he made clear his disappointment with the harsh benefits to immigrants provisions in the bill. The President stated:

> "My Administration supports holding sponsors who bring immigrants into this country more responsible for their well-being. Legal immigrants and their children, however, should not be penalized if they become disabled and require medical assistance through no fault of their own."

INSERT (C):

NEW

In addition, under our budget, disabled children who are currently eligible for Medicaid because they are receiving SSI benefits will be able to retain their Medicaid coverage -- even if they lose their SSI benefits as a result of the tightened definition of childhood disability for that program in the welfare reform bill. Under this proposal, the families of these needy disabled children will be assured that medical assistance will continue to be provided.

It makes tough choices and shows tough management.

Now we must act upon it.

Because, just like the past when we faced down diseases and tyranny, future generations will look back on today.

The question is, whether they will see a nation that put aside politics and came together to protect the health of its citizens in the 21st century.

The answer is up to us. Thank you.

Welfare

It's the same way with welfare reform. When the President signed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, he made it clear that this was the beginning -- not the end -- of welfare reform. He made it clear that we all have a responsibility to come together and make this law work -- especially for our children. And, he made it clear that this was an opportunity for us to create a welfare system that requires work, promotes parental responsibility, and protects children.

Before welfare reform became law,

I'm proud of the progress we've made together. ~~With our waivers, we've already given~~ gave 43 states the flexibility they need to test innovative welfare strategies. Paternity establishments have gone up 50 percent since 1992. In 1996, we collected a record of over $12 billion in child support payments. And the tough new provisions in the welfare law are projected to increase child support collections by an additional $24 billion over 10 years.

The result? Because of the intensity of our efforts and because of the strength of our economy, welfare rolls have gone down by 2.5 million -- that's more than 16 percent since the President took office. Moving people from welfare to work, enabling them to support their families and maintain their independence -- that's the goal upon which all of us have always agreed. We are committed to combining all of the leadership, talent and resources possible to implement the new welfare law.

Let me briefly give you a progress report on our implementation of the new Temporary Assistance for Needy Families (TANF) program. Although states have until July 1997 to implement the TANF program, we have already given the green light to 35 states (as of 1/29/97) to begin their reforms. HHS has provided guidance indicating that States have flexibility in designing their TANF programs, but at the same time emphasizing the importance of moving families from welfare to work.

At the Federal level, we are challenging States to transform the very culture of the system from a welfare program to a work program. We must launch a national effort in every State and every community to make sure there are jobs for people making the transition from welfare to work. So they can leave the welfare rolls, they must have opportunities not only to find jobs, but to keep them.

religious institutions

Creating these opportunities will take a commitment from business and labor, from ~~churches~~ and communities, from officials at the federal, state, and local levels. And, it will take the bipartisan Congressional spirit that brought us this far -- and must continue to carry us down the road to success.

new

That is why the President's FY 98 budget contains a ~~comprehensive~~ welfare to work initiative. The President's proposal will help States and cities create new jobs, prepare individuals for them, and provide employers with incentives to create new job opportunities for long-term welfare recipients.

Insert (A)

The President's welfare to work investments includes a $3 billion Jobs Challenge designed to move a million of the hardest to employ welfare recipients into lasting jobs by the year 2000. It expands access to credit and enhances employer incentives to help long-term welfare recipients.

This is an exciting initiative in which many departments and agencies -- the departments of Treasury, Labor, Transportation, HUD, and others -- have joined together to further the President's firm commitment to make welfare reform a reality. At HHS, we will be using all the means at our disposal to help families go to work and become self-sufficient.

As I indicated earlier, the hallmark of this welfare law is the broad flexibility it gives states to design innovative reforms that address their unique challenges. We are confident that States will use this considerable new flexibility and the President's new initiatives to strengthen their focus on work as well.

We will be monitoring state performance and, pursuant to the statute, ranking them accordingly. We will be identifying and studying the high performers and the low performers, tracking child poverty, and providing an overall assessment of the legislation's impact on children and families.

INSERT A (replaces paragraph at top of p. 25)

To help welfare recipients move from welfare to work, and to help communities help them do so, the President proposes two new initiatives: A Welfare-to-Work Jobs Initiative to help States and cities create job opportunities for the hardest-to-employ welfare recipients; and a greatly enhanced Work Opportunities Tax Credit to provide powerful new private-sector financial incentives to create jobs for long-term welfare recipients.

The Welfare-to-Work Jobs initiative would provide $3 billion in mandatory funding over three years for job creation and placement to move a million of the hardest-to-employ welfare recipients into lasting jobs by the year 2000. We will encourage States and cities to use voucher-like arrangements as they deploy these funds, to empower individuals with the tools and choices to help them get jobs and keep them.

Under the enriched Work Opportunities Tax Credit for hiring long-term welfare recipients, employers could claim a tax credit of 50 percent of the first $10,000 in wages paid to these hires. For the purpose of determining the amount of the credit, wages may include the cost of training, medical insurance, and child care.

I:\data\hhstest.212

We will look closely at how states comply with some key statutory requirements, including child support enforcement, work participation rates, maintenance of effort, and data reporting.

We also will assume major new responsibilities for compiling and disseminating information. As the number of options continues to grow, states will need better information about these options, and the Congress will need better information to assess how effectively federal funds are used.

I know that several members of Congress have suggested a wait-and-see approach to the new welfare system. They advise that state implementation should be carefully reviewed before undertaking major policy changes to the TANF program. Our Department has proposed a number of technical and conforming changes to the TANF program that I believe maintain the spirit and intent of its policies.

Our Administration believes that welfare reform has always been -- and must always remain -- a bipartisan issue. But, just as we came together to make work and responsibility the law of the land, we believe it is time to come together again to ensure that the centerpiece of welfare reform remains a real effort designed to find work for everyone who is able to work.

Insert (B)

V The President's FY 1998 budget makes good on his promise to correct provisions that were included to save money, and which burden States and punish children and the disabled who cannot work. We are pleased that the governors, in a NGA resolution last week, agreed - we must not balance the budget on the backs of States or legal immigrants.

Our budget would restore a safety net of SSI and ~~Food Stamps~~ Medicaid for legal immigrant children and for legal immigrants who become severely disabled after entering our country. It would extend from five to seven years the time period in which refugees are eligible for assistance after they enter the U.S. -- so that they have enough time to overcome the hardships they have faced and to become ~~self-sufficient~~ citizens. And it would delay the Food Stamp ban on legal immigrants ~~by 3 months~~ until the end of FY1997 in order to give immigrants more time to naturalize.

P INSERT (C)

Overall, our proposals strengthen our commitment to a new welfare system focused on work and responsibility while addressing the concerns of State and local officials and restoring benefits to those who can't work - particularly children and the disabled. We must give all Americans a hand-up and get on with the real business before us; reforming our welfare system together.

Mr. Chairman, the budget I have discussed today discards tired old solutions and meets our challenges creatively and cooperatively. It balances the budget, without abandoning our values and commitments.

The Nation should protect legal immigrants and their families -- people admitted as permanent members of the American community -- when they suffer accidents or crippling illnesses that prevent them from earning a living.

Insert [redacted] (B);

When the President signed the Welfare Reform bill he made clear his disappointment with the harsh benefits to immigrants provisions in the bill. The President stated:

> "My Administration supports holding sponsors who bring immigrants into this country more responsible for their well-being. Legal immigrants and their children, however, should not be penalized if they become disabled and require medical assistance through no fault of their own."

INSERT (C):

NEW

In addition, under our budget, disabled children who are currently eligible for Medicaid because they are receiving SSI benefits will be able to retain their Medicaid coverage -- even if they lose their SSI benefits as a result of the tightened definition of childhood disability for that program in the welfare reform bill. Under this proposal, the families of these needy disabled children will be assured that medical assistance will continue to be provided.

It makes tough choices and shows tough management.

Now we must act upon it.

Because, just like the past when we faced down diseases and tyranny, future generations will look back on today.

The question is, whether they will see a nation that put aside politics and came together to protect the health of its citizens in the 21st century.

The answer is up to us. Thank you.

Total Pages: 32

LRM ID: RJP12

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

URGENT

Thursday, February 6, 1997

LEGISLATIVE REFERRAL MEMORANDUM

TO:	Legislative Liaison Officer - See Distribution below
FROM:	Janet R. Forsgren (for) Assistant Director for Legislative Reference
OMB CONTACT:	Robert J. Pellicci **PHONE:** (202)395-4871 **FAX:** (202)395-6148
SUBJECT:	HHS Proposed Testimony on President's FY98 Budget Proposals for Medicare, Medicaid, and Welfare
DEADLINE:	**10 am Friday, February 7, 1997**

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. **Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.**

COMMENTS: Attached is HHS Secretary Shalala's testimony on the Medicare, Medicaid, and welfare-related proposals in the President's FY98 Budget. **The Secretary is scheduled to deliver this testimony on Wednesday, February 12th, before the House Ways and Means Committeee and on Thursday, February 13th, before the Senate Finance Committee.**

Please provide comments on the Medicare- and Medicaid-related portions to Robert Pellicci (tel: 202-395-4971). Comments on the welfare-related portion should be given to Melinda Haskins (tel: 202-395-3923).

HHS has asked that OMB provide it with clearance by by COB, Friday, February 7th.

DISTRIBUTION LIST

AGENCIES:
62-LABOR - Robert A. Shapiro - (202) 219-8201
118-TREASURY - Richard S. Carro - (202) 622-0650
117 and 340-TRANSPORTATION - Tom Herlihy - (202) 366-4687
110-Social Security Administration - Judy Chesser - (202) 358-6030
54-HUD - Jeff Lischer - (202) 708-1793
7-AGRICULTURE - Marvin Shapiro - (202) 720-1516
61-JUSTICE - Andrew Fois - (202) 514-2141

EOP:
Nancy A. Min
JENNINGS_C
Kenneth S. Apfel
Cynthia M. Smith
Barry White
Elena Kagan

Barry T. Clendenin
Mark E. Miller
Barbara E. Washington
Keith J. Fontenot
Jeffrey A. Farkas
Lester D. Cash
Stacy L. Dean
Wendy A. Taylor
Laura Oliven Silberfarb
Bruce N. Reed
Diana Fortuna
Robert W. Schroeder
Robert G. Damus
Larry R. Matlack
Carole Kitti
Allison H. Eydt
James C. Murr
Janet R. Forsgren
OMB LA

LRM ID: MDH6 SUBJECT: HHS Proposed Testimony on President's FY98 Budget Proposals for Medicare, Medicaid, and Welfare

RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:
(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
(2) sending us a memo or letter
Please include the LRM number shown above, and the subject shown below.

TO: Robert J. Pellicci Phone: 395-4871 Fax: 395-6148
Office of Management and Budget
Branch-Wide Line (to reach legislative assistant): 395-7362

FROM: _____ (Date)

_____ (Name)

_____ (Agency)

_____ (Telephone)

The following is the reponse of our agency to your request for views on the above-captioned subject:

_____ Concur

_____ No Objection

_____ No Comment

_____ See proposed edits on pages _____

_____ Other: _____

_____ FAX RETURN of _____ pages, attached to this reponse sheet

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

DRAFT

TESTIMONY OF

DONNA E. SHALALA

SECRETARY
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

House Ways and Means Committee
Wednesday, February 12, 1996

Senate Finance Committee
Thursday, February 13, 1996

Mr. Chairman and members of the committee: Thank you for giving me the opportunity to testify today about the President's Fiscal Year 1998 Budget proposal. We in the Administration look forward to working closely with you as we move toward our shared goal of a balanced budget.

Someone once described America as "the only country deliberately founded on a good idea."

That good idea is "We the people," and it has emboldened our nation to face -- and overcome -- great challenge with courage and unity.

In the 1940s, we faced a broken and conquered Europe, but we summoned the will to fight and win -- and saved the world from tyranny.

In the 50s, we faced the terrible scourge of polio. But children contributed their dimes, and America's best scientists dedicated their lives to finding a vaccine. And we found one.

And, in the 1960s, we faced a Soviet Union that had taken the lead in the race for space. But, President Kennedy issued a challenge to land an American on the moon by the end of the decade. We did, and no country has done it since.

What do all of these triumphs have in common? They came during times of great social and political change. But with a deep sense of urgency, Americans put aside partisan differences, answered the call to unity, and achieved a critical national goal. Today, we must do the same.

Because today, we face another great challenge: At a time when we have fewer resources, a population that is rapidly aging, and, a deficit that while much improved, still plagues us, we must come together again: This time to balance the budget and truly reform Medicare, Medicaid, and welfare, while still keeping our promises to the citizens we serve.

MEDICARE

For more than thirty years, Medicare has provided a blanket of health security for older Americans and people with disabilities. It has helped lift a generation of senior citizens out of poverty and into the middle class. It has helped change what it means to be old in America; what it means to be sick in America; what it means to be disabled in America. And it has often served as a fault line between a life of comfort and good health and a life of struggle and illness.

The gift that Medicare has given to those who came before us must be preserved for those who come after us -- for our children and our grandchildren, for every generation. That is our moral responsibility.

But you and I know that Medicare now faces a short-term and a long-term crisis -- a crisis that demands action. For nearly four years, we have been unable to come to a consensus on the best way to preserve Medicare and improve it for the future. The President has made it clear that he wants to work with the Congress to make this the year of bipartisan agreement on this vital program.

In this budget, the President has reached out to the congressional majority by offering a plan to meet them halfway. His Medicare proposals will extend the life of the Hospital Insurance Trust Fund into 2007, ten years from today. I have with me today a letter from the independent chief actuary of the Medicare program that verifies that fact. I will be happy to submit it for the record.

The President's plan contributes $100 billion to the five-year balanced budget, which corresponds to $138 billion over six years.

And we do that by maintaining a system that guarantees access to a defined set of services rather than creating a defined contribution per beneficiary.

These proposals are made in good faith and are based on sound policy. They make sense for both the Medicare program and its beneficiaries. Our savings are scoreable. There are no gimmicks. I ask for your careful consideration of our proposals, and for your partnership to enact them.

But Medicare reform is not and cannot be simply an exercise in number crunching. The actions we take this year to preserve the Medicare trust fund also must prepare Medicare for the future. Not many of us would drive cross country in a car that's more than 30 years old. Likewise, we can't move into the next century with a health insurance program built in 1965. That's why to preserve Medicare, we must modernize it. This modernization requires us to do six things:

First, we must add new benefits to reflect developments in today's science.

Second, we must add new choices to compete with today's private market.

Third, we must make Medicare a more prudent purchaser of health care services.

Fourth, we must strengthen our rural health care system.

Fifth, we must protect beneficiaries.

And sixth, we must continue to root out waste, fraud, and abuse so that we spend our hard-earned tax dollars wisely and effectively.

New Benefits

The Medicare benefit package has remained relatively unchanged since 1965. But our science has not. From decades of research, we know that preventive services not only can save money, but also can save lives. Now we're putting our money where our science is. I am very pleased by the bipartisan support for expansion of the Medicare benefit package. The President's plan will cover the following:

- To eliminate economic barriers to mammography, we include an annual mammogram for Medicare beneficiaries. We also will waive the Part B deductible and coinsurance for both screening and diagnostic mammograms.

- To save lives, we want to provide annual screening to detect signs of colon cancer.

- Because better management of diabetes leads to better health, we include monitoring of blood glucose levels and outpatient self-management training for diabetics.

- To improve access to adult vaccinations and help seniors avoid serious and sometimes deadly illnesses, we would increase provider payments for vaccines against pneumonia, influenza, and Hepatitis B and waive patient cost-sharing for the hepatitis B vaccine.

- And, finally, to offer some relief for the families who are primary caregivers of a relative with Alzheimer's disease, we would provide a new respite care benefit of 32 hours per beneficiary per year.

New Choices

When it comes to health care for older Americans -- or any Americans for that matter -- there can be no conflicts between choice and quality. We need both. We are proud of our record of increasing choice for Medicare beneficiaries while continuing to protect the quality of care. Since 1993 the number of beneficiaries in managed care has increased by 108 percent and is rising at a rate of 80,000 per month. Today, approximately 13 percent of our Medicare beneficiaries -- about 5 million -- are enrolled in managed care plans. And that number is growing by 80,000 every month.

The President's budget continues this progress by adding new choices to Medicare plans. We will include preferred provider organizations or PPOs, which offer patients a greater ability to choose their doctors and other providers. And we

will offer beneficiaries the chance to enroll in provider sponsored organizations or PSOs, offered by hospitals and physicians under integrated arrangements that we hope will improve care and reduce cost.

At the same time, to promote real and informed choice among health plans, Medicare will establish coordinated annual open enrollment periods as well as additional enrollment opportunities to subscribe to managed care and Medigap plans.

To make sure that choice is real and that beneficiaries who choose managed care have an open door to go back to fee-for-service, if they so choose, we will prohibit Medigap insurers from imposing pre-existing condition waiting periods when beneficiaries initially enroll or any time they switch plans. In addition, Medicare will establish continuous Part B enrollment opportunities for beneficiaries.

Quality Protection

We also will institute a series of reforms to further improve the quality of care provided to all citizens who rely upon Medicare. We will adopt a new, integrated quality management system for Medicare and Medicaid. Traditionally, HCFA has executed quality related requirements focusing on each provider entity individually. We will also collect and disclose more of our survey data on safety, quality of care,

and program integrity so that citizens can have better comparative information on plans and providers. And we will replace the so-called 50-50 rule for managed care plans with more modern quality measures. Protecting and improving health, and increasing satisfaction with the care received are the goals of the program.

Prudent Purchasing

Finally, Mr. Chairman, it is imperative that Medicare -- which is the largest purchaser of health care services in our nation -- be a more prudent purchaser. Unfortunately, in too many cases, because of limitations in the law Medicare is now paying the highest price in the market for certain drugs, lab services and durable medical equipment when, given the volume of beneficiaries, we should be paying one of the lowest. From managed care premiums to medical devices, the reforms we propose will make sure that Medicare isn't paying retail while everyone else is paying wholesale.

These proposals are sound health policy and they require a shared burden. They will result in a slower rate of growth in Medicare spending and ensure that Medicare is paying a competitive price for the services it buys. The savings that these proposals generate are spread across all providers of health care and are focused, as they should be, on those areas where growth is the greatest.

Managed Care. Experts agree that Medicare's payment methodology for managed care, which was created in 1982, results in serious overpayments for services. For example, under contract to HCFA, Mathematica Policy Research, Incorporated came to such a conclusion with its 1993 review of the Medicare Risk Program. Both the Physician Payment Review Commission and HCFA studies indicate that Medicare should be paying managed care plans at a rate between 88 and 90 percent of fee-for-service costs. At the same time, however, payments to many smaller, rural plans are too low and are failing to attract much market interest.

The President's budget also includes reforms to move us to a better, more competitive system of paying for managed care. Through our Medicare Choices demonstration, we are experimenting with competitive bidding and we are working on risk adjusters to HMO payments to counter selection bias. We expect to have a proposal for a new risk adjusted payment methodology as early as 1999, with phase-in of new payments beginning as early as 2001.

To curb cost growth, we recommend three interim and important changes in Medicare payments for managed care plans. First, we propose to carve out from the payment methodology those funds that are intended to cover the cost of direct and indirect graduate medical education and payments to disproportionate share hospitals. We will pay these funds directly to hospitals on behalf of managed care enrollees.

Second, we will gradually reduce the regional variation in payments to managed care plans and create a payment floor for plans in rural counties to encourage enrollment in managed care plans.

And, third, we propose to reduce the Medicare payment from 95 percent of the average adjusted per capita cost or AAPCC to 90 percent. However, to give plans a sufficient amount of time to adjust to these new payment levels, we would not begin this policy until 2000.

Hospital payments. We propose a series of Medicare hospital payment changes to safeguard the program and to reflect market changes. Under the President's budget, the hospital payment update will be reduced by one percentage point every year from fiscal year 1998 through 2002 to reflect increases in hospital productivity and efficiency.

We also will propose to count as transfers, not discharges, hospitalizations that result in a patient using post acute services such as skilled nursing facility or rehabilitation hospital care for the final stages of their treatment.

Home health care. Home health care is one of the fastest growing components of Medicare. The share of total Medicare Part A spending devoted to home health care has grown from 2.2 percent in 1980 to 8.5 percent in 1995. In 1984,

1.2 million Medicare beneficiaries used 31 million home health visits. By 1994, the number of beneficiaries had grown to 3.2 million and the number of visits had increased to 209 million.

We know that this growth has its roots in changes in medical practices and technology, in the expansion of the benefit, and in our current reimbursement system, which can contribute to overpayment and abusive practices. And we know that we must reduce the rate of growth in Medicare home health spending and keep it under control. And, that's what our reforms will help us do.

We will immediately revise our cost limits to establish a set of interim limits that will curb excessive spending and institute a new per-beneficiary payment limit for each home health agency.

We will implement a new prospective payment system for home health services in 1999. This system, which has been recommended by experts to control spending, will reduce incentives for overutilization.

We will eliminate periodic interim payments for home health agencies, originally established as an incentive for new agencies to serve Medicare patients. With 100 new agencies joining Medicare each month, this incentive clearly is no longer necessary.

In addition, we will pay for home health services based on where the service is delivered. Frankly, many agencies are taking advantage of a loophole by locating their billing offices in expensive urban areas to take advantage of higher prevailing payments, regardless of where services are actually rendered. We will close that loophole.

Along with our strategy to control home health spending, we propose to reassign payment for home health services that are not associated with post-hospital recovery from Part A to Part B. This is a deficit neutral proposal and is not counted in our overall Medicare savings number. We would limit Part A home health coverage to the first 100 visits following a 3-day hospital stay which would continue to be covered under Part A, just as this part of the program covers 100 days of skilled nursing care following hospitalization. But, visits beyond 100, and those not following a 3-day hospital stay, would be paid under Part B, along with other outpatient services.

This return of non-post-hospital visits to Part B -- Medicare policy prior to 1980 -- makes the home health benefit consistent with the original intent of the Medicare statute and its division of services between Part A and Part B. It relieves the Part A trust fund of the responsibility for financing care that doesn't belong there, thereby significantly extending the life of the trust fund. And it achieves these goals without subjecting beneficiaries to increases in premiums and cost-sharing.

Beneficiary Centered Purchasing. To become a more prudent purchaser of other health services, our plan gives the Secretary payment authorities to secure better deals for Medicare and the citizens it serves. From setting payments based on competitive bidding to selectively paying centers of excellence a single rate for all services associated with a specific diagnosis, these -- and our other purchasing reforms -- will help us economize, modernize, and create a Medicare program that will not only survive, but thrive, to serve every generation.

Rural Health

The Administration continues to promote Medicare reforms that strengthen health care in rural America.

For example, our plan would expand the Rural Primary Care Hospital Program to all 50 states. It would update the payment for sole community hospitals, improve the rural referral center program, and reinstate the Medicare Dependent Hospital program to provide resources to those rural hospitals that need it most.

Protect Beneficiaries

We believe we can balance the budget, preserve the Medicare Trust Fund and modernize Medicare for the 21st century, while still protecting our beneficiaries. And we *must* protect our beneficiaries.

The fact is, more than three-fourths of seniors have incomes of $25,000 or less. They cannot afford to shoulder a greater share in premiums or in cost sharing. We believe that balance billing limits must protect all beneficiaries, regardless of which Medicare coverage option they choose.

Our plan proposes Medigap reforms to assure portability, protect against pre-existing condition limits, and provide equitable and affordable premium rates.

It keeps Part B premiums at 25 percent of program costs. This division of costs, first enacted in the Tax Equity and Fiscal Responsibility Act of 1982, has protected beneficiaries while ensuring that the cost of Part B is shared by those who use it. As noted, the plan creates an opportunity for continuous Medicare Part B enrollment.

For hospital outpatient services, it brings the patient co-insurance rate down from about 50 percent to the 20 percent charged for most other Part B services.

And, it ensures that managed care plans pay for emergency services when a "prudent layperson" would have reasonably believed they were necessary.

Fighting Fraud and Abuse

Modernizing Medicare for the 21st century also requires eliminating the fraud and abuse that robs our health care system and our taxpayers. Since I took office a little more than four years ago, I have made this a top priority by setting a policy of "zero tolerance" for health care fraud and abuse.

Just two years ago, the President and I unveiled a pilot project called "Operation Restore Trust" to target our anti-fraud efforts to fight fraud and abuse in 5 key states. We have significantly increased the resources of our Inspector General and have strengthened our payment reviews using technology to prevent fraud, and to detect it when it occurs.

And, it's paid off. We estimate that every dollar we invest in our anti-fraud effort yields $10 dollars in savings for the American people. In fact, just last month, Inspector General June Brown reported that "Labscam," her investigation of payment fraud by independent clinical labs, will net the Medicare program over $800 million in recoveries and penalties by the end of this month.

We intend to maintain and intensify these efforts. I will be submitting to Congress in the Spring a fraud and abuse bill that will enable us to strengthen the identification and enrollment procedure to ensure that only legitimate providers bill Medicare. In this budget bill, we include provisions to prevent home health agencies from using a loophole in the current reimbursement system to bill a higher urban rate for service provided in rural areas. We will require insurers to reject insurance coverage so that Medicare does not pay inappropriately for beneficiaries covered by private insurance. We would repeal the anti-kickback exemption for managed care plans, enacted last year and scored by the Congressional Budget Office as a considerable cost to the Medicare program. And we propose to reinstate the requirement that providers use reasonable diligence when submitting accurate claims to Medicare. Finally, we will strengthen our ombudsman function in the States, building a cadre of elderly volunteers.

MEDICAID

Mr. Chairman, I'd like, now, to turn to Medicaid. The President's budget strengthens the Medicaid program -- so that we can better reach the vulnerable Americans it is designed to serve. Our plan controls the costs of Medicaid and gives new flexibility to the states, without compromising the Federal guarantee of coverage for low-income children, pregnant women, frail senior citizens, and persons with disabilities.

We should all be proud that growth in Medicaid spending has declined significantly over the past two years. CBO's baseline projects five-year Medicaid spending to be more than $80 billion lower than projected just a year ago for the same period. The President's budget ensures that the success we have achieved with our State partners will continue.

Our plan saves, on net, about $9 billion over five years. Total savings are about $22 billion: roughly two-thirds from a reduction in disproportionate share hospital DSH payments and roughly one-third from the per capita cap. At the same time, the President's plan invests $13 billion in improvements to Medicaid including health initiatives to expand coverage for children, changes to last year's welfare reform law, and new policies to help people with disabilities return to work.

Per Capita Cap

Let me take a minute to explain our per capita cap. Under the President's proposal, the Federal government will continue to match state Medicaid spending for each individual enrolled. In this way, there is absolutely no incentive for states to deny coverage to a needy individual or family.

Under the per capita cap, the Federal government will establish a baseline of spending for four categories of beneficiaries: aged, disabled, adults in families with children, and children. Maximum Federal matching expenditures will then be established for each state based on per person spending, the number of beneficiaries, and the current Federal matching rate. The Federal government would only match expenditures up to a State's total allowable limit. States will have flexibility to use savings from one group to support expenditures for other groups or to expand benefits or coverage.

Not all Medicaid spending would be subject to the per capita cap. Spending for state fraud control units, DSH payments, Medicare premiums and cost sharing, payments to Indian Health Service and other Indian health providers, and the Vaccines for Children program would be excluded Administrative costs would be included in the base year calculation.

Let me be clear: This per capita cap is neither a block grant nor a cost shift to the States -- it's a sensible way to make sure that the people who need Medicaid are able to receive it. When economic downturns occur, population growth and other factors cause Medicaid enrollment to expand, aggregate spending will grow as well. This budget keeps our promise of health care to our most vulnerable citizens, but it does so in a smart, responsible way.

State Flexibility

How will we help states keep spending within these per capita limits? The President's budget includes a series of reforms that increase state flexibility by throwing away mountains of red tape and regulations. For example:

- We would repeal the Boren amendment for hospitals and nursing homes and establish a public notice process for determining those reimbursement rates.

- We allow states to expand Medicaid coverage to new groups and to enroll beneficiaries in Managed Care without waivers.

- We eliminate the requirement for cost-based payments for health clinics and create a new pool for supplemental payments to those clinics that may be adversely affected by this policy.

- We replace the 75/25 enrollment composition rule for Medicaid managed care plans with new quality data standards.

- We give States the option of extending Medicaid health care and long term services coverage to workers with disabilities, thus removing a major barrier to employment faced by Americans with disabilities.

- We eliminate the detailed requirements for state claims processing and information retrieval systems.

DSH Payment Reform

In addition to the per capita cap with enhanced state flexibility, federal DSH payments will be reduced and retargeted to safety net hospitals and other essential community providers.

Medicaid DSH spending doubled each year from 1988 to 1993. Although this rapid growth has slowed -- thanks to bipartisan laws enacted in 1991 and 1993 to place stricter limits on growth in the DSH program -- today's DSH program is still too large and is often inconsistently distributed among States and is not always focused on safety net providers.

Covering Children

Mr. Chairman, I know that all of the members of this Committee agree that the tragedy of some 10 million American children without health insurance demands bipartisan action. The vast majority of these children live in families where parents work hard and play by the rules.

We believe that situation is unacceptable for a great nation. No working parent should have to live with the fear that his or her children will become sick or hurt one day -- and there will be nowhere to take them to ease the pain.

Our goal is to cut the number of uninsured children by up to 5 million over the next five years. And, the President's budget takes important steps to help us do just that.

First, we will give states the option to allow 12 months of continuous Medicaid coverage for all children who are eligible. By stopping the churning of children in and out of Medicaid, we can provide stable coverage for children and better continuity of services. We estimate this change will help one million children annually.

Second, the Department will work closely with the states to enroll at least 1.6 million of the estimated three million children who are eligible for Medicaid today but

who, for a variety of reasons, are not enrolled. We are committed to working in a bipartisan manner with the nation's governors to make this a reality.

Third, we expect States to enroll an additional 250,000 low-income children in each of the next four years as part of the phased-in expansion of coverage to children between the ages of 14 and 18 under current law.

Fourth, the President's Healthy Working Families initiative, which provides up to six months of premium assistance to workers between jobs, is expected to add another 700,000 children to the private-sector insurance rolls.

And fifth, we will make available to the states $750 million annually to support innovative programs designed to purchase private insurance for an estimated one million uninsured children in families that receive neither Medicaid nor employer-sponsored insurance.

Mr. Chairman, let me say that we view these proposals as a package. They will dramatically reduce the number of uninsured children in America, thereby improving their health and their parents' piece of mind. And, they will create an affordable Medicaid program that fulfills the promises we have made to our most vulnerable citizens.

Welfare

It's the same way with welfare reform. When the President signed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, he made it clear that this was the beginning -- not the end -- of welfare reform. He made it clear that we all have a responsibility to come together and make this law work -- especially for our children. And, he made it clear that this was an opportunity for us to create a welfare system that requires work, promotes parental responsibility, and protects children.

I'm proud of the progress we've made together. With our waivers, we've already given 43 states the flexibility they need to test innovative welfare strategies. Paternity establishments have gone up 50 percent since 1992. In 1996, we collected a record of over $12 billion in child support payments. And the tough new provisions in the welfare law are projected to increase child support collections by an additional $24 billion over 10 years.

The result? Because of the intensity of our efforts and because of the strength of our economy, welfare rolls have gone down by 2.5 million -- that's more than 16 percent since the President took office. Moving people from welfare to work, enabling them to support their families and maintain their independence -- that's the goal upon which all of us have always agreed. We are committed to combining all of the leadership, talent and resources possible to implement the new welfare law.

Let me briefly give you a progress report on our implementation of the new Temporary Assistance for Needy Families (TANF) program. Although states have until July 1997 to implement the TANF program, we have already given the green light to 35 states (as of 1/29/97) to begin their reforms. HHS has provided guidance indicating that States have flexibility in designing their TANF programs, but at the same time emphasizing the importance of moving families from welfare to work.

At the Federal level, we are challenging States to transform the very culture of the system from a welfare program to a work program. We must launch a national effort in every State and every community to make sure there are jobs for people making the transition from welfare to work. So they can leave the welfare rolls, they must have opportunities not only to find jobs, but to keep them.

Creating these opportunities will take a commitment from business and labor, from churches and communities, from officials at the federal, state, and local levels. And, it will take the bipartisan Congressional spirit that brought us this far -- and must continue to carry us down the road to success.

That is why the President's FY 98 budget contains a comprehensive welfare to work initiative. The President's proposal will help States and cities create new jobs, prepare individuals for them, and provide employers with incentives to create new job opportunities for long-term welfare recipients.

The President's welfare to work investments includes a $3 billion Jobs Challenge designed to move a million of the hardest to employ welfare recipients into lasting jobs by the year 2000. It expands access to credit and enhances employer incentives to help long-term welfare recipients.

This is an exciting initiative in which many departments and agencies -- the departments of Treasury, Labor, Transportation, HUD, and others -- have joined together to further the President's firm commitment to make welfare reform a reality. At HHS, we will be using all the means at our disposal to help families go to work and become self-sufficient.

As I indicated earlier, the hallmark of this welfare law is the broad flexibility it gives states to design innovative reforms that address their unique challenges. We are confident that States will use this considerable new flexibility and the President's new initiatives to strengthen their focus on work as well.

We will be monitoring state performance and, pursuant to the statute, ranking them accordingly. We will be identifying and studying the high performers and the low performers, tracking child poverty, and providing an overall assessment of the legislation's impact on children and families.

We will look closely at how states comply with some key statutory requirements, including child support enforcement, work participation rates, maintenance of effort, and data reporting.

We also will assume major new responsibilities for compiling and disseminating information. As the number of options continues to grow, states will need better information about these options, and the Congress will need better information to assess how effectively federal funds are used.

I know that several members of Congress have suggested a wait-and-see approach to the new welfare system, they advise that state implementation should be carefully reviewed before undertaking major policy changes to the TANF program. Our Department has proposed a number of technical and conforming changes to the TANF program that I believe maintain the spirit and intent of its policies.

Our Administration believes that welfare reform has always been -- and must always remain -- a bipartisan issue. But, just as we came together to make work and responsibility the law of the land, we believe it is time to come together again to insure that the centerpiece of welfare reform remains a real effort designed to find work for everyone who is able to work.

The President's FY 1998 budget makes good on his promise to correct provisions that were included to save money, and which burden States and punish children and the disabled who cannot work. We are pleased that the governors, in a NGA resolution last week, agreed - we must not balance the budget on the backs of States or legal immigrants.

Our budget would restore a safety net of SSI and Food Stamps for legal immigrant children and for legal immigrants who become severely disabled. It would extend from five to seven years the time period in which refugees are eligible for assistance after they enter the U.S. -- so that they have enough time to overcome the hardships they have faced and to become self sufficient. And it would delay the Food Stamp ban on legal immigrants by 3 months.

Overall, our proposals strengthen our commitment to a new welfare system focused on work and responsibility while addressing the concerns of State and local officials and restoring benefits to those who can't work - particularly children and the disabled. We must give all Americans a hand-up and get on with the real business before us; reforming our welfare system together.

Mr. Chairman, the budget I have discussed today discards tired old solutions and meets our challenges creatively and cooperatively. It balances the budget, without abandoning our values and commitments.

It makes tough choices and shows tough management.

Now we must act upon it.

Because, just like the past when we faced down diseases and tyranny, future generations will look back on today.

The question is, whether they will see a nation that put aside politics and came together to protect the health of its citizens in the 21st century.

The answer is up to us. Thank you.