

September 14, 1993

**MEMORANDUM**

**TO:** John Jarvis ✓  
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Attached FYI are the talking points Forscey put together this morning on the Clinton health care plan.

Attachment

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## Clinton Health Plan Talking Points

### Basic Structure

- National Health Policy Board to oversee and enforce conditions on state plans.
- By 1997, states must establish regional health plans through which all citizens will purchase health insurance.
- Everyone must be in health alliance except DOD, V.A. and employers with 5000 or more employees.
- Employers pay 80% of cost; workers pay 20%.
- Very broad benefits; new benefits very expensive.
- Choice of doctor (fee-for-service plans) available but at higher (and ultimately prohibitive) cost.

### Regulatory Structure

- Heavy regulatory control over states from Washington.
- No direct price controls; however, Washington establishes budget and penalizes states and health plans that miss target.
- Insurance premiums strictly controlled and insurers expected to cram down cost savings on doctors and hospitals.

### What Are We Buying?

- Vast expansion of Medicaid benefit package and coverage for unemployed.
- Subsidy for low-income part-time and full-time workers variously at 250% and 150% of poverty.
- Subsidize small business (50 employees, \$12,000 average wage) whose mandated premium is capped at 3.5% of payroll (larger employers capped at 7.9%).
- New long term care benefit - \$80 billion.
- New drug benefit for seniors - their costs capped at \$250 deductible, 20% co-pay to maximum of \$1,000. 25% of cost paid by increased Medicare part B premium (doctor fee) for seniors.
- Federal government will absorb cost of auto and steel industry early retiree health care contract commitments.
- New research and administration money for HHS bureaucracy - \$29 billion.

### Who Pays?

- Sin taxes - \$105 billion.
- Medicare savings - \$124 billion.
- Medicaid savings - \$114 billion.
- Employer mandate premium - not given.
- Employee premium - not calculated; not considered a tax.
- According to Administration, the plan produces \$91 billion in deficit reduction by 2000. In other words, only \$14 billion in sin taxes over seven years is needed to pay for plan.

### What's Questionable About This Plan?

- Sin taxes pay almost \$27 billion in years 1 and 2, but spending doesn't really start until 3rd year.
  - \$1 billion spending in 1994, but \$12 billion in sin taxes.
  - Sin taxes not really needed under the plan prior to 1996.
- Aren't mandatory employer and employee premiums the same as taxes?
- Cost estimates for new benefits greatly underestimate costs because utilization will be higher. Government has historically underestimated cost of benefit expansions:
  - Long term care benefit
  - Basic benefit package
  - Drug benefit
  - True cost of expanding coverage for poor
- The large revenue expected from Medicare/Medicaid savings are politically unrealistic.
- Because states are given so much responsibility, taxes enacted at federal level will also be enacted in states.
- However, federal bill will limit sources of revenue states can tap. (e.g., draft bill prohibits states from raising employer premium above 7.9%. Thus, federal restrictions on state revenue sources will further expose excise taxes at state level.)

# How Reform Is Financed

(\$ billion, 1994-2000)

## Sources of Funds

Medicare Savings (\$124)

Sin Taxes (\$105)

Medicaid Savings (\$114)

Other Federal Program Savings (\$47)

Revenue Gains (\$51)

Former Medicare and Medicaid  
Recipients Now Covered by  
Alliance Plans (\$259)

## Uses of Funds

Long-term Care (\$80)

Medicare Drug Benefit (\$72)

Public Health/Admin (\$29)

Subsidies for low-income  
firms and workers\* (\$169)

Deficit Reduction (\$91)

Alliance Coverage (\$259)

\* Includes self-employed tax deduction.

Estimates are preliminary and do not incorporate interactive effects.