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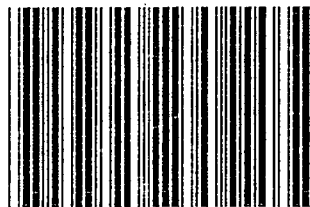
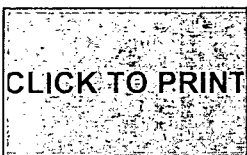
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BAUCUS

REMARKS OF
THE HONORABLE MAX BAUCUS
BEFORE THE
AMERICAN PSYCHIATRIC ASSOCIATION
MARCH 15, 1983

INTRODUCTION

THANK YOU VERY MUCH FOR INVITING ME TO BE WITH YOU TODAY.

THIS IS AN ESPECIALLY GOOD TIME TO DISCUSS HEALTH LEGISLATION. JUST LAST WEEK, THE SENATE FINANCE COMMITTEE, ON WHICH I SERVE, TOOK ACTION ON THE SOCIAL SECURITY REFORM PACKAGE. ATTACHED TO THAT PACKAGE, WAS A PLAN TO CHANGE THE WAY MEDICARE PAYS HOSPITALS FOR THE CARE THEY PROVIDE.

THE APA TESTIFIED ON THIS PROSPECTIVE REIMBURSEMENT PLAN BEFORE MY HEALTH SUBCOMMITTEE. YOU MADE SEVERAL SPECIFIC RECOMMENDATIONS ABOUT HOW PROSPECTIVE REIMBURSEMENT WOULD AFFECT PSYCHIATRIC FACILITIES AND PSYCHIATRIC TREATMENT IN ACUTE CARE HOSPITALS.

BASED ON THIS TESTIMONY, WE ON THE FINANCE COMMITTEE DECIDED THAT THESE PSYCHIATRIC FACILITIES AND UNITS SHOULD NOT BE COVERED UNDER THE NEW PROSPECTIVE REIMBURSEMENT SYSTEM.

YOU SHOULD BE PLEASED THAT YOUR REPRESENTATIVES MADE SUCH AN EFFECTIVE PRESENTATION BEFORE THE FINANCE COMMITTEE. I HAVE EVERY REASON TO BELIEVE THAT THE FULL SENATE WILL AGREE WITH THE FINANCE COMMITTEE RECOMMENDATION WHEN WE CONSIDER IT LATER THIS WEEK.

IN ADDITION, THE HOUSE AND SENATE BUDGET ARE PUTTING THE FINAL TOUCHES ON NEXT YEAR'S BUDGET TARGETS. THESE RESOLUTIONS WILL SET FORTH SAVINGS GOALS FOR SPENDING PROGRAMS -- LIKE

MEDICARE AND MEDICAID --AND THEY WILL PUT IN PLACE REVENUE GOALS FOR TAX PROGRAMS.

THE BUDGET RESOLUTIONS WILL LAY THE FOUNDATION FOR THE DEBATE ON SPECIFIC HEALTH PROPOSALS--LIKE CATASTROPHIC INSURANCE, BENEFICIARY COST-SHARING, AND THE EMPLOYER TAX CAP--THAT WILL BE CONSIDERED LATER THIS YEAR.

FURTHER, SOME OF US ARE BEGINNING TO GIVE SERIOUS ATTENTION TO THE PROBLEMS FACING THE HOSPITAL INSURANCE TRUST FUND, THAT'S THE FUND THAT PAYS MEDICARE HOSPITAL BENEFITS. THE SOLVENCY OF THIS TRUST FUND HAS CONCERNED ME FOR SOME TIME. BUT ONLY IN THE LAST WEEK OR TWO HAS THERE BEEN ANY MEDIA ATTENTION GIVEN TO THIS PROBLEM.

I WOULD LIKE TO SPEND SOME TIME TODAY SHARING MY VIEWS WITH YOU ON THE PROBLEMS FACING MEDICARE IN THE NEXT FEW YEARS.

HEALTH COSTS

I DON'T NEED TO TELL THIS GROUP THAT WE HAVE PROBLEMS WITH THE HEALTH CARE SYSTEM. YOU KNOW, AS WELL AS I DO, THAT TODAY WE ARE SPENDING MORE THAN EVER FOR HEALTH CARE, BUT GETTING LESS FOR OUR MONEY.

HEALTH EXPENDITURES--BOTH PUBLIC AND PRIVATE--ARE CONTINUING TO INCREASE EVEN THOUGH THE ECONOMY IS SHOWING VERY LITTLE INFLATION.

NATIONAL HEALTH EXPENDITURES--THE AMOUNT WE AMERICANS SPEND ON HEALTH--ROSE LAST YEAR TO \$287 BILLION. THIS IS VERY CLOSE TO 10 PERCENT OF THE GROSS NATIONAL PRODUCT--UP FROM 6 PERCENT OF THE GNP IN 1965.

IF WE LOOK CLOSELY AT THESE EXPENDITURES, WE FIND THAT SPENDING FOR HOSPITAL CARE IS THE LARGEST COMPONENT OF THESE

OUTLAYS. SO, WHILE THE CONSUMER PRICE INDEX TUMBLED FROM ALMOST 13 PERCENT TO 5 PERCENT IN THE LAST TWELVE MONTHS, WE FIND THAT PROGRESS AGAINST INFLATION HAS STOPPED AT THE HOSPITAL DOOR.

IN 1982, HOSPITAL COSTS WENT UP THREE TIMES THE NATIONAL INFLATION RATE. FEDERAL OUTLAYS FOR MEDICARE ROSE 21.5 PERCENT LAST YEAR. AND THE COST OF PRIVATE HEALTH INSURANCE ROSE 15.9 PERCENT IN 1982--THE BIGGEST INCREASE EVER.

RISING HEALTH COSTS ARE A NATIONAL PROBLEM. FEDERAL, STATE, AND LOCAL GOVERNMENTS--WHO PAY 42 PERCENT OF THE HEALTH CARE BILL -- ARE WRACKING UP RECORD BUDGET DEFICITS TO MEET THE SOARING COSTS OF MEDICARE AND MEDICAID.

AND HOW DO INCREASED HEALTH EXPENDITURES AFFECT THE PRIVATE SECTOR? WORKERS DRAW LOWER WAGES THAN THEY OTHERWISE MIGHT BECAUSE EMPLOYERS MUST PAY HIGHER HEALTH INSURANCE PREMIUMS.

AND CONSUMERS PAY HIGHER PRICES FOR GOODS BECAUSE COMPANIES HAVE TO PASS ON MUCH OF THE HIGHER HEALTH INSURANCE PREMIUM COSTS.

IN SOME CASES, THESE COSTS HAVE CONTRIBUTED TO AMERICAN INDUSTRY'S LOSS OF COMPETITIVE POSITION. U.S. STEEL, FOR EXAMPLE, ESTIMATES THAT THE COST OF HEALTH BENEFITS ADD AN EXTRA \$20 TO THE PRICE OF EACH TON OF STEEL THE INDUSTRY PRODUCES. AND AMERICAN AUTO COMPANIES FIGURE THE COST OF EMPLOYEE HEALTH BENEFITS TO BE AS MUCH AS \$400 ON EACH CAR PRODUCED. THAT'S MORE THAN ONE-QUARTER OF THE REPORTED \$1500 COST ADVANTAGE THAT JAPANESE CARS HAVE OVER OUR OWN.

SKYROCKETING HEALTH CARE COSTS AFFECT ALL OF US--EMPLOYERS AND EMPLOYEES, PHYSICIANS AND AS PATIENTS. HEALTH CARE INFLATION IS NOT AN ISSUE THAT SHOULD INTEREST ONLY THE HEALTH

SUBCOMMITTEES OF CONGRESS. IT'S A NATIONAL PROBLEM, A PROBLEM CONTRIBUTING TO THE FEDERAL DEFICIT, A PROBLEM THAT SIPHONS OFF NEEDED RESOURCES FROM THE REST OF THE ECONOMY, A PROBLEM NOT CONFINED TO PUBLIC PROGRAMS.

ADMINISTRATION BUDGET PROPOSALS

FOR THE PAST THREE YEARS, THE REAGAN ADMINISTRATION HAS CITED STATISTICS SIMILAR TO THE ONES I JUST DISCUSSED. IN ANSWER TO RISING COST OF HEALTH CARE, THE ADMINISTRATION HAS PROPOSED CUTS IN MEDICARE BENEFITS.

FOR THE PAST THREE YEARS, THE ADMINISTRATION HAS HAD ONLY ONE ANSWER TO RISING HEALTH CARE COSTS: MAKE AMERICA'S ELDERLY SHOULDER MORE OF THE BURDEN FOR PAYING THEIR MEDICAL BILLS.

THE ADMINISTRATION HAS DEVELOPED SOME PROPOSALS THAT APPEAR TO BE TARGETED AT HEALTH CARE PROVIDERS--DOCTORS AND HOSPITALS BUT CLOSE EXAMINATION SHOWS THAT THESE PROPOSALS RESULT IN NOTHING MORE THAN COST-SHIFTING TO HEALTH CARE CONSUMERS. SO LONG AS FEDERAL OUTLAYS ARE REDUCED, THE HEALTH POLICYMAKERS IN HHS AND OMB ARE CONTENT.

LET'S LOOK AT THE RECORD. IN 1981, ABOUT 80 PERCENT OF THE CHANGES MADE IN MEDICARE THAT YEAR'S RECONCILIATION ACT MEANT MORE COSTS FOR AMERICA'S ELDERLY. LAST YEAR, IN 1982, CONGRESS REJECTED AN ADMINISTRATION BUDGET CHOCK FULL OF BENEFIT CUTS AND, INSTEAD, DRAFTED A HOSPITAL COST CONTAINMENT PLAN. AND THIS YEAR--TO NO ONE'S SURPRISE--THE ADMINISTRATION HAS PROPOSED THE BENEFIT CUTS THAT WE REJECTED LAST YEAR, AS WELL AS A FEW NEW ONES.

LETTING THIS ADMINISTRATION'S HEALTH POLICYMAKERS WORK ON MEDICARE IS KIND OF LIKE PEELING AN ONION. THEY STRIP AWAY LAYER

AFTER LAYER, YEAR AFTER YEAR--UNTIL ALL YOU'RE LEFT WITH IS THE TEARS.

LET'S LOOK AT THE TWO BIG MEDICARE COST-SAVERS PROPOSED BY THE ADMINISTRATION THIS YEAR.

FIRST, THERE IS THE RESTRUCTURING OF PART A HOSPITAL INSURANCE. THE ADMINISTRATION IS PROPOSING TO PROVIDE CATASTROPHIC HEALTH INSURANCE IN EXCHANGE FOR GREATER BENEFICIARY COST-SHARING.

OF COURSE, THE ELDERLY, ON FIXED INCOMES, ARE RIGHTFULLY AFRAID OF BEING BANKRUPTED BY HIGH-COST HOSPITAL CARE. WE ALL ARE.

BUT THE "TRADE" THE ADMINISTRATION IS PROPOSING--COPAYMENTS ON DAYS IN THE HOSPITAL IN EXCHANGE FOR CATASTROPHIC COVERAGE--IS NOT A FAIR DEAL AT ALL.

THE COST TO THE GOVERNMENT TO PROVIDE THE CATASTROPHIC COVERAGE THE ADMINISTRATION WANTS IS MINIMAL. THE COST TO THE ELDERLY, WHO WOULD HAVE TO PAY MORE OUT-OF-POCKET FOR HOSPITAL CARE WOULD BE GREAT.

ONLY ONE-HALF OF ONE PERCENT OF HOSPITALIZED MEDICARE BENEFICIARIES WOULD BE HELPED. MEANWHILE, THE OTHER 99 1/2 PERCENT OF HOSPITALIZED BENEFICIARIES WOULD PAY \$2.2 BILLION MORE THAN UNDER CURRENT LAW.

THE ADMINISTRATION'S PLAN IS COLD-HEARTED, IT IS MISLEADING, AND IT IS NOT AN ANSWER TO THE REAL PROBLEM WITH MEDICARE HOSPITAL INSURANCE.

SO, WE SEE THAT THE FIRST MAJOR BUILDING BLOCK IN THE ADMINISTRATION'S MEDICARE PROPOSALS IS LABELED A SWAP, BUT IS, IN REALITY, A BIG SAVINGS ITEM FOR THE GOVERNMENT--A SAVINGS ITEM OF

\$710 MILLION IN 1984--\$710 MILLION OUT OF THE POCKETS OF HOSPITALIZED ELDERLY AMERICANS.

THE SECOND MAJOR BUILDING BLOCK IN THE ADMINISTRATION'S MEDICARE PROPOSALS IS TO FREEZE PHYSICIAN FEES FOR NEXT YEAR.

THIS PROPOSAL IS ATTRACTIVE TO MANY BECAUSE THEY SEE \$700 MILLION IN SAVINGS. BUT LET'S TAKE A CLOSER LOOK AT WHAT THIS PROPOSAL MAY MEAN FOR OLDER AMERICANS.

THE PROPOSAL DOES NOT MEAN THAT PHYSICIANS' CHARGES WILL REMAIN LEVEL--IT ONLY MEANS THAT FEDERAL OUTLAYS WILL NOT RISE.

THE PROPOSAL MEANS THAT ABOUT HALF THE "SAVINGS" THE GOVERNMENT WILL ACHIEVE UNDER THIS PROPOSAL--ABOUT \$350 MILLION--WILL COME FROM OLDER AMERICANS.

ONLY ABOUT HALF THE CLAIMS FOR PHYSICIANS' SERVICES UNDER MEDICARE ARE "ASSIGNED" CLAIMS--THAT IS, CLAIMS WHERE PHYSICIANS ACCEPT MEDICARE'S DETERMINATION OF REASONABLE CHARGES. IN THESE CASES, THE PHYSICIAN PAY FREEZE WILL MEAN THAT LESS FEDERAL DOLLARS WILL GO TO DOCTORS.

HOWEVER, FOR THE OTHER HALF OF THE CLAIMS FILED--WHERE THE PHYSICIANS DO NOT PARTICIPATE IN MEDICARE, AND WHERE PHYSICIANS CHARGE MORE THAN WHAT MEDICARE SAYS IS REASONABLE--THE MEDICARE RECIPIENT WILL HAVE TO PAY MORE.

THE ADMINISTRATION'S PROPOSAL DOES NOT STOP PHYSICIANS FROM RAISING THEIR FEES. THE PROPOSAL ONLY LIMITS MEDICARE OUTLAYS. WHERE FEES GO UP--AND THEY WILL GO UP--THE ELDERLY WILL HAVE TO PAY MORE. AND EVEN THOSE PHYSICIANS WHO DO ACCEPT MEDICARE ASSIGNMENT WILL BE DISCOURAGED BY THIS PROPOSED FREEZE FROM PARTICIPATING ANY LONGER. IF THIS PROPOSAL FOR A PAY FREEZE GOES THROUGH, I EXPECT PHYSICIAN ASSIGNMENT RATES TO DETERIORATE.

IN YOUR OWN FIELD OF PSYCHIATRY, WHERE THE MEDICARE BENEFIT IS EXTREMELY LIMITED, I'M SURE YOU SEE THAT A PHYSICIAN PAY FREEZE IS YET ANOTHER DISINCENTIVE TOWARD PROVIDING CARE TO THE ELDERLY.

THE ADMINISTRATION SEEMS TO FEEL THAT MEDICARE PATIENTS SHOULD PAY MORE IN HOPES THAT THEY WILL USE HOSPITALS LESS--THAT INCREASED COST-SHARING WILL SPUR THEM TO LOBBY PHYSICIANS AGAINST UNNECESSARY PROCEDURES.

THE ELDERLY ALREADY ARE SUBJECT TO A GREAT DEAL OF COST-SHARING--MUCH MORE THAN THE DEGREE OF COST-SHARING EXPECTED OF WORKING AMERICANS. THEY ALREADY PAY A GREAT DEAL THROUGH EXISTING DEDUCTIBLES, AND PREMIUMS, AND COINSURANCE. IN FACT, STUDIES I HAVE SEEN SHOW THAT MEDICARE COVERS ONLY ABOUT 40 PERCENT OF THE HEALTH EXPENSES OF ELDERLY AMERICANS. HOW MUCH COST-SHARING IS ENOUGH?

FEDERAL PROGRAMS DESIGNED TO HOLD DOWN HOSPITAL UTILIZATION AND TO PROMOTE HIGH-QUALITY CARE ARE OPPOSED BY THIS ADMINISTRATION AS UNDUE INTERFERENCE WITH THE PRACTICE OF MEDICINE.

WHY SHOULD GOVERNMENT BE PREVENTED FROM TAKING EVERY STEP IT CAN TO BUY ONLY THE BEST QUALITY CARE FOR THE CLIENTS IT SERVES? WHY SHOULD GOVERNMENT BE PREVENTED FROM MAKING SURE THAT IT PAYS ONLY FOR HEALTH CARE THAT IS MEDICALLY NECESSARY?

I'M PLEASED TO NOTE THAT THE APA CURRENTLY IS INVOLVED IN ITS OWN PEER REVIEW PROGRAM. I UNDERSTAND THAT APA CONTRACTS WITH MORE THAN A DOZEN THIRD-PARTY CARRIERS--INCLUDING THE DEFENSE DEPARTMENT'S CHAMPUS PROGRAM--TO PERFORM PEER REVIEW OF PSYCHIATRIC CASES. GIVEN YOUR GOOD EXPERIENCE WITH PEER REVIEW,

I AM SURE YOU SHARE MY COMMITMENT TO A SUBSTANTIALLY WIDER APPLICATION OF PEER REVIEW--TO ALL OF THE MEDICAL CARE PROVIDED TO MEDICARE BENEFICIARIES.

THREE QUARTER OF THE SAVINGS ATTRIBUTABLE TO THE PROPOSALS PUT FORWARD BY THE ADMINISTRATION THIS YEAR WILL COME FROM THE POCKETS OF AMERICA'S SENIOR CITIZENS. WE SHOULD NOT BE FOOLED BY THE ADMINISTRATION'S RHETORIC. WE SHOULD SEE THESE MEDICARE PROPOSALS FOR WHAT THEY ARE--AN ATTEMPT TO BREAK THE COMMITMENT THAT WAS MADE BY CONGRESS IN 1965 TO GUARANTEE THE ELDERLY ACCESS TO HIGH QUALITY MEDICARE CARE.

MEDICARE TRUST FUND

FINALLY, THE CUTS IN BENEFITS PROPOSED BY THE ADMINISTRATION DO NOT ADDRESS THE REAL PROBLEM WITH MEDICARE--THE SOLVENCY OF THE PART A HOSPITAL INSURANCE TRUST FUND. THIS TRUST FUND IS FINANCED BY PAYROLL CONTRIBUTIONS PAID BY EMPLOYERS, EMPLOYEES, AND THE SELF-EMPLOYED.

THE MOST RECENT PROJECTIONS MADE BY THE CONGRESSIONAL BUDGET OFFICE INDICATE THAT WE FACE SERIOUS FINANCING PROBLEMS FOR MEDICARE LATER IN THIS DECADE. CONTINUED SOLVENCY OF MEDICARE'S HOSPITAL INSURANCE TRUST FUND WILL REQUIRE VERY SUBSTANTIAL INCREASES IN REVENUES OR CUTS IN MEDICARE OUTLAYS--THAT IS CUTS IN BENEFITS OR REDUCED PAYMENTS TO HEALTH PROVIDERS--THAT ARE MUCH LARGER THAN ANY PROPOSALS CURRENTLY UNDER DISCUSSION IN WASHINGTON.

LET ME GIVE YOU SOME NUMBERS TO ILLUSTRATE MY POINT.

ACTUARIES PROJECT THAT BALANCES IN THE MEDICARE HOSPITAL INSURANCE TRUST FUND WILL BE EXHAUSTED SOMETIME DURING 1987. 1987! THAT'S FOUR YEARS FROM NOW!

MEDICARE'S BASIC FINANCIAL PROBLEM AROSE BECAUSE HOSPITAL COSTS WERE GROWING MUCH FASTER THAN THE EARNINGS TAXED TO GENERATE REVENUE FOR THE TRUST FUND.

HOSPITAL COSTS ATTRIBUTABLE TO MEDICARE BENEFICIARIES ARE PROJECTED TO INCREASE OVER THE 1982-1985 PERIOD AT AN AVERAGE ANNUAL RATE OF 13.2 PERCENT. COVERED EARNINGS WHICH PROVIDE REVENUE FOR THE TRUST FUND ARE PROJECTED TO GROW BY ONLY 6.8 PERCENT.

THE CBO PROJECTS A TRUST FUND BALANCE OF \$1.3 BILLION AT THE END OF 1986. WITH NO CHANGE IN EXISTING LAW, THE TRUST FUND WOULD SHOW STEADILY GROWING DEFICITS--\$7.6 BILLION IN 1987 AND \$70.2 BILLION IN 1990--RISING TO \$221.5 BILLION IN 1993 AND \$402.9 BILLION IN 1995.

THESE ARE SOBERING FIGURES. AND THE POSSIBLE SOLUTIONS--RANGING FROM HIGHER PAYROLL TAXES, TO HIGHER CHARGES FOR MEDICARE SERVICES, TO HOSPITAL COST CONTROLS--WOULD HAVE TO BE MUCH MORE STRINGENT THAN ANYTHING PROPOSED TO DATE IF THEY ARE TO KEEP MEDICARE SOLVENT.

THERE IS NO QUESTION THAT MEDICARE WILL HAVE TO BE RESTRUCTURED IN ORDER TO MAKE IT SOLVENT. BUT THREE YEARS OF ADMINISTRATION BUDGET PROPOSALS HAVE IGNORED THE LOOMING CRISIS IN MEDICARE.

THE BUDGET PROCESS IS NO WAY TO DEVELOP THE OPTIONS THAT WOULD SET MEDICARE ON A SOUND FINANCIAL BASIS. WE NEED A NATIONAL COMMISSION--JUST LIKE THE SOCIAL SECURITY COMMISSION--TO DRAFT A LONG-RANGE PLAN FOR MEDICARE. AND THEN TO UNDERTAKE THE TASK OF BUILDING THE POLITICAL SUPPORT NEEDED TO GET IT PASSED.

LAST WEEK, SENATE DEMOCRATS FORMED A TASK FORCE TO LOOK AT

THIS ISSUE. AS CHAIRMAN OF THIS TASK FORCE, I INTEND TO DEVELOP A "ROAD MAP" FOR MAKING SURE MEDICARE IS FINANCIALLY SOUND IN THE FUTURE.

I AM SURE THAT SOME BENEFITS WILL HAVE TO BE REORDERED--AND THAT RISING HOSPITAL COSTS AND PHYSICIANS' FEES WILL ALSO HAVE TO BE CURBED--IF MEDICARE IS NOT TO GO BROKE.

I THINK THAT WE CAN NO LONGER AFFORD TO DELAY ACTION ON THIS MATTER. YOU AND I BOTH KNOW THAT IT TOOK A POLITICAL FIRESTORM TO PROD THE ADMINISTRATION TO ESTABLISH A BI-PARTISAN APPROACH TO SOLVING SOCIAL SECURITY'S LONG-TERM PROBLEMS. I'M SUGGESTING TO YOU TODAY THAT WE NEED A SIMILAR APPROACH TO MANAGE THE CHALLENGES FACING MEDIARE.

AS SENATE DEMOCRATS WE ARE PREPARED TO FACE THE MEDICARE FUNDING PROBLEM HEAD ON, AND TO BEGIN TO FORGE A REALISTIC SOLUTION. I ONLY HOPE THAT THE ADMINISTRATION WILL ABANDON ITS EFFORTS TO GUT THE PROGRAM WITHOUT THE PROPER NATIONAL DEBATE, AND THAT IT WILL JOIN US IN TAKING CONSTRUCTIVE STEPS NOW--BEFORE IT IS TOO LATE TO SAVE MEDICARE.