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American Health Care Association

Max S. Baucus

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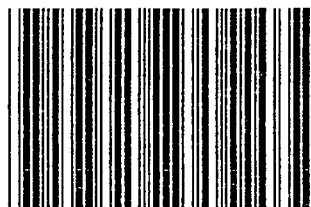
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BAUCUS

REMARKS BY
SENATOR MAX BAUCUS
FOR THE
AMERICAN HEALTH CARE ASSOCIATION
JULY 24, 1985

INTRODUCTION:

THE THREE TOPICS I'D LIKE TO ADDRESS TODAY ARE:

1. THE FEDERAL BUDGET SITUATION AND HEALTH SPENDING FOR 1986.
2. TAX REFORM AND THE RESPONSE SO FAR TO THE ADMINISTRATION'S TAX PLAN.
3. UPCOMING LONG-TERM CARE ISSUES FACING CONGRESS.

I ALSO WANT TO LEAVE TIME FOR YOUR QUESTIONS.

THE FEDERAL BUDGET SITUATION:

CONTROLLING FEDERAL SPENDING AND LOWERING THE DEFICITS CONTINUE TO DOMINATE THE AGENDA OF CONGRESS.

THE SHEER MAGNITUDE OF THE DEFICITS MAKE THE CHOICES A WHOLE LOT MORE DIFFICULT AND CONTROVERSIAL NOW. IT'S NO LONGER GOOD ENOUGH TO JUST TINKER WITH SPENDING LEVELS.

BUDGET NEGOTIATIONS ARE STALLED OVER THE BIG ISSUES: DEFENSE AND SOCIAL SECURITY.

THERE ARE TWO REASONS NOT TO GIVE UP HOPE ON A BUDGET COMPROMISE:

1. THE AMERICAN PEOPLE WANT LOWER DEFICITS AND DON'T WANT TO SEE CONGRESS THROW IN THE TOWEL. AFTER ALL, THEY'VE HEARD FOR A LONG TIME NOW THAT THIS IS THE NATION'S TOP PRIORITY.

2. CONGRESS NEEDS AN BUDGET RESOLUTION OR IT'S A RETURN TO "OPEN SEASON" ON SPENDING WITHOUT CONSTRAINTS.

HEALTH SPENDING:

HEALTH SPENDING IS NOW BEING DRIVEN BY THE NECESSITY TO LOWER THE FEDERAL BUDGET, NOT BY HEALTH POLICY PRIORITIES.

IN AN IDEAL WORLD, HEALTH SPENDING WOULD BE THE RESULT OF WHAT'S NECESSARY TO MEET OUR NATIONAL HEALTH PRIORITIES, BUT FRANKLY THAT JUST ISN'T THE CASE THESE DAYS.

THE SENATE BUDGET RESOLUTION CALLS FOR ABOUT \$16.3 BILLION IN MEDICARE AND MEDICAID REDUCTIONS OVER THE NEXT THREE YEARS. THE HOUSE VERSION CUTS ABOUT \$13 BILLION. IN BOTH CASES, MOST OF THE SAVINGS ASSUME PAYMENT FREEZES ON ALMOST ALL CATEGORIES OF HEALTH CARE PROVIDERS.

THE GOOD NEWS FOR NURSING HOME OPERATORS IS THAT THE ADMINISTRATION'S PROPOSAL TO CAP THE MEDICAID

PROGRAM, WHICH WOULD FREEZE FEDERAL MEDICAID PAYMENTS TO THE STATES, IS NOW A DEAD ISSUE. MEDICAID WILL PROBABLY BE REDUCED SOMEWHAT BUT NOT IN A WAY THAT FORCES ELIGIBILITY CHANGES OR REDUCED BENEFIT LEVELS.

THE MAIN POINT IS DON'T LOOK TO CONGRESS IN 1985 TO PROVIDE FOR MAJOR HEALTH PROGRAM EXPANSIONS. THE PRESSURES ARE ALL COMING FROM THE OTHER DIRECTION.

TAX REFORM:

ONE OF THE THINGS HOLDING THE ATTENTION OF CONGRESS RIGHT NOW IS THE PRESSURE FOR TAX REFORM.

THE PRESIDENT CALLS HIS TAX REFORM PROPOSAL A PLAN FOR FAIRNESS, SIMPLICITY, AND ECONOMIC GROWTH. WAYS AND MEANS AND SENATE FINANCE ARE NOW HOLDING HEARINGS TO SEE HOW WELL HIS PLAN MEETS HIS STATED OBJECTIVES.

SIMPLICITY:

WE CAN ALL AGREE THAT THE PRESENT TAX CODE
DESPERATELY NEEDS TO BE SIMPLIFIED.

THE CODE IS NOW OVER 2,000 PAGES LONG -- LONGER
THAN THE BIBLE, THE TALMUD AND THE KORAN COMBINED.

THE REGULATIONS ARE FIVE TIMES LONGER.

LAST YEAR, 44 PERCENT OF ALL TAXPAYERS TURNED TO
OTHERS TO FILL OUT THEIR RETURNS. INCLUDING
600,000 WHO QUALIFIED FOR THE SIMPLEST FORM OF ALL
-- THE EZ FORM.

BUT LET'S NOT KID OURSELVES. TAX SIMPLIFICATION
IS EASIER SAID THAN DONE.

IN THE PAST FOUR YEARS, CONGRESS HAS ENACTED THREE
MAJOR TAX BILLS RESULTING IN A WHOPPING 3,258
AMENDMENTS TO PROVISIONS IN THE TAX CODE.

-- 1981 (ECONOMIC RECOVERY ACT): 483 SEC-
TIONS AMENDED.

-- 1982 (TEFRA): 530 SECTIONS AMENDED.

-- 1984 (TAX REFORM ACT): 2,245 SECTIONS
AMENDED.

AS ONE OF MY CONSTITUENTS TOLD ME AT A HEARING I
HELD BACK HOME IN MONTANA: "SENATOR, I'M NOT SURE
WE CAN STAND MUCH MORE REFORM, EQUITY, OR
SIMPLIFICATION!"

BUT I THINK THAT THIS TIME WE REALLY DO HAVE A
CHANCE TO SIMPLIFY THE CODE. AND MAYBE WHEN WE ARE
DONE, WE COULD ALL LEAVE "TAX REFORM" ALONE FOR
AWHILE AND GET SOME STABILITY AND PREDICTABILITY
BACK INTO THE TAX SYSTEM.

I HAVE TWO PRINCIPAL GOALS FOR TAX REFORM: FAIR-
NESS AND PROMOTING ECONOMIC GROWTH.

FAIRNESS:

FAIRNESS IS IN THE EYE OF THE BEHOLDER.

THE MOST GLARING EXAMPLES OF UNFAIRNESS ARE THE MULTI-MILLIONAIRES AND THE LARGE CORPORATIONS WHO MANAGE TO PAY NO TAXES AT ALL.

BUT THE ADMINISTRATION'S PLAN ALSO RAISES SOME IMPORTANT FAIRNESS ISSUES SUCH AS:

-- SHOULD WE ELIMINATE THE STATE AND LOCAL DEDUCTION?

-- LIMIT DEDUCTIONS FOR INTEREST EXPENSES?

-- CHANGE THE CHILD CARE CREDIT TO A DEDUCTION?

-- RETAIN TAX PREFERENCES FOR CERTAIN INDUSTRIES WHILE SCALING BACK OR ELIMINATING OTHERS?

THE AMERICAN PEOPLE WANT MORE THAN LOWER RATES WHEN THEY TALK ABOUT TAX REFORM. THEY EXPECT THAT THE END RESULT WILL BE FAIR ACROSS ALL INCOME LEVELS.

ECONOMIC GROWTH:

THIS IS THE MOST SERIOUS PROBLEM WITH THE
ADMINISTRATION'S PROPOSAL.

AT A TIME WHEN AMERICA IS FACING FIERCE FOREIGN
COMPETITION, WE HAVE A TAX SYSTEM THAT DISTORTS
INVESTMENT DECISIONS.

WE NEED TO RESTORE OUR TAX SYSTEM TO ONE THAT
PROMOTES INVESTMENT DECISIONS ON THE BASIS OF
ECONOMIC RETURN RATHER THAN TAX AVOIDANCE.

WE NEED TO FOCUS THE DEBATE ON TAX REFORM ON THE
MEASURES AMERICA NEEDS TO TAKE TO BE A COMPETITOR
IN THE WORLD ECONOMY. WE CAN'T AFFORD TO LET THIS
DEBATE SIMPLY FOCUS ON THE WHICH TAX PREFERENCES
TO PROTECT AND WHICH TO MODIFY.

OUTLOOK ON TAX REFORM:

SO WHAT'S THE OUTLOOK?

CONGRESS WILL ACT ON TAX REFORM. THE PRESIDENT WILL GET SOME OF WHAT HE WANTS AND CONGRESS WILL SHAPE THE OUTCOME AS WELL.

SUPPORT FOR TAX REFORM IS BROAD, BUT NOT DEEP. AND MANY OF US BELIEVE THAT DEALING WITH THE BUDGET DEFICIT HAS TO BE OUR TOP PRIORITY.

LOOK FOR THE HOUSE TO ACT FIRST, MAYBE AS SOON AS OCTOBER. THEN THE SENATE WILL NEED TO COMPLETE ITS WORK. BUT IN THE SENATE, WHERE THE AMENDMENT PROCESS IS VERY OPEN, THE BILL COULD TAKE UP TO SIX WEEKS ON THE FLOOR, ACCORDING TO THE MAJORITY LEADER.

THAT MEANS WE ARE PROBABLY LOOKING AT 1986 BEFORE CONGRESS COMPLETES ACTION ON THE TAX PLAN.

LONG-TERM CARE ISSUES:

LET ME CONCLUDE BY TURNING TO THE ISSUE OF LONG-TERM CARE AND WHERE I THINK WE ARE HEADING WITH THAT.

RIGHT NOW, PUBLIC LONG-TERM CARE FINANCING IS OVERWHELMINGLY SUPPORTED BY THE MEDICAID PROGRAM. TO QUALIFY FOR MEDICAID ASSISTANCE WHEN YOU ARE BOTH FRAIL AND ELDERLY YOU FIRST HAVE TO BECOME POOR BY EXHAUSTING PRACTICALLY ALL OF YOUR INCOME AND ASSETS.

I'M REMINDED OF WHAT LYNDON JOHNSON SAID WHEN HE SIGNED THE MEDICARE PROGRAM INTO LAW EXACTLY 20 YEARS AGO:

"OLDER CITIZENS WILL NO LONGER HAVE TO FEAR THAT ILLNESS WILL WIPE OUT THEIR SAVINGS, EAT UP THEIR INCOME AND DESTROY LIFELONG HOPE FOR DIGNITY AND INDEPENDENCE."

BUT, AS YOU ALL KNOW, THAT'S EXACTLY THE SITUATION THAT ELDERLY AMERICANS FACE WHEN IT COMES TO CHRONIC ILLNESS.

IN FACT, PART OF THE PROBLEM WE FACE IS THAT THE MEDICARE PROGRAM HAS BEEN OVERSOLD TO THE PUBLIC. MOST AMERICANS FIRMLY BELIEVE THAT MEDICARE WILL PROTECT THEM FROM THE HIGH COSTS OF LONG-TERM CARE

WHEN AND IF THEY NEED IT. UNFORTUNATELY, MEDICARE COVERAGE IS EXTREMELY LIMITED TO RELATIVELY SHORT-TERM REHABILITATIVE SUPPORT, NOT LONG-TERM CARE.

EVEN THOSE WITH "MEDIGAP" SUPPLEMENTAL PLANS ARE STILL FINANCIALLY VULNERABLE, IN ALMOST ALL CASES.

THERE ARE TWO REASONS TO BELIEVE THAT LONG-TERM CARE WILL BE THE MAJOR HEALTH ISSUE IN THE YEARS AHEAD.

1. SIMPLE DEMOGRAPHIC PROJECTIONS INDICATE THAT THE POPULATION OF ELDERLY CITIZENS IS INCREASING DRAMATICALLY EVEN BY THE END OF THE CENTURY.

2. PERSISTENT HIGH FEDERAL DEFICITS "AS FAR AS THE EYE CAN SEE", AS THE PHRASE GOES HERE IN WASHINGTON, MAKE IT CLEAR THAT CONGRESS WILL BE LOOKING FOR ALTERNATIVES TO THE MEDICAID PROGRAM AS THE PRIMARY SOURCE OF SUPPORT FOR LONG-TERM CARE.

JUST TO EMPHASIZE THE LAST POINT, LONG-TERM CARE SPENDING NOW AMOUNTS TO ABOUT 45 PERCENT OF THE FEDERAL SHARE FOR MEDICAID, YET THE LONG-TERM CARE POPULATION ACCOUNTS FOR ONLY 7 PERCENT OF THE 23 MILLION PEOPLE WHO ARE MEDICAID RECIPIENTS.

WHEN YOU CONSIDER THE HIGH COSTS FOR LONG-TERM CARE FOR BOTH THE FEDERAL GOVERNMENT AND THE STATES AND YOU SPECULATE ON DOUBLING OR TRIPLING THOSE COSTS AS WE APPROACH THE YEAR 2000, YOU HAVE A MAJOR INCENTIVE WORKING FOR LONG-TERM CARE REFORM.

LONG-TERM CARE OPTIONS:

I THINK THAT THE OPTIONS THAT WILL RECEIVE THE MOST LIVELY ATTENTION IN THE YEARS AHEAD ARE THOSE THAT INCREASE PRIVATE FINANCING FOR LONG-TERM CARE.

PRIVATE INSURANCE:

WE HAVE ALREADY BEGUN TO SEE AN EXPANSION OF LONG-TERM CARE POLICIES BEING OFFERED BY PRIVATE INSURERS. PRIVATE INSURANCE NOW ACCOUNTS FOR LESS THAN ONE PERCENT OF ALL FUNDING FOR LONG-TERM CARE. THAT MEANS THAT THERE IS A LONG WAY TO GO BEFORE PRIVATE INSURANCE MAKES A SIGNIFICANT DIFFERENCE IN THE COST PROJECTIONS IN THIS AREA.

WE ALSO NEED TO WATCH THIS DEVELOPMENT CLOSELY TO MAKE SURE THAT CONSUMERS ARE PROTECTED FROM UNSCRUPULOUS INSURANCE PRACTICES AND WE DON'T END UP WITH THE SAME PROBLEMS WE SAW WITH MEDIGAP POLICIES.

PERSONAL RESOURCES:

OTHER RESEARCHERS ARE LOOKING AT WAYS TO INCREASE THE USE OF PRIVATE RESOURCES FOR MEETING MORE OF THE LONG-TERM CARE NEEDS. THESE OPTIONS INCLUDE:

-- SETTING UP LONG-TERM CARE IRA'S;

-- CONVERTING THE EQUITY OF HOMEOWNERS INTO A
SOURCE OF INCOME;

-- CREATING TAX SUBSIDIES FOR FAMILY SUPPORT.

THE IMPORTANT CONSIDERATION FOR EACH OF THESE
PROPOSALS IS TO FIND OUT THE EXTENT TO WHICH THEY
WOULD REALLY HELP SOLVE THE PROBLEM OF LONG-TERM
CARE COSTS. IN OTHER WORDS, WOULD THEY WORK?

SUMMARY:

THESE ARE JUST A FEW OF THE ISSUES WHICH CONGRESS
NEEDS TO CONSIDER IN THE YEARS AHEAD AS LONG-TERM
CARE EMERGES AS A MAJOR HEALTH ISSUE FOR THE
COUNTRY.

I WELCOME THE CHANCE TO WORK WITH YOUR ASSOCIATION
AS WE EXPLORE THESE OPTIONS AND OTHERS. IT'S NOT
LIKELY THAT CONGRESS WILL ENACT A MAJOR PUBLIC
PROGRAM ADDRESSING LONG-TERM CARE. IT'S MUCH MORE
LIKELY THAT CONGRESS WILL CONSIDER A VARIETY OF
APPROACHES THAT REDUCE THE BURDENS OF LONG-TERM
CARE FOR THE ELDERLY AND THEIR FAMILIES.

CONCLUSION:

I ENCOURAGE THOSE OF YOU IN THE INDUSTRY TO TAKE A BROAD VIEW OF THE OPTIONS, TO THINK CREATIVELY, AND TO SUPPLY MEMBERS OF CONGRESS WITH THE BEST FACTS AVAILABLE. I THINK THAT YOU WILL BE SURPRISED TO FIND OUT THAT MOST MEMBERS OF CONGRESS REALLY DO WANT TO DO WHAT IS RIGHT. WE FACE FINANCIAL CONSTRAINTS, JUST AS YOU DO IN YOUR BUSINESS. BUT WE ARE ALSO INTERESTED IN FINDING SOLUTIONS AND, WITH THAT, I INVITE ANY QUESTIONS YOU MAY HAVE.