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February 12, 1976

SUBJECT: MEDICARE IMPROVEMENTS ACT

Some facts (to follow up yesterday's briefing):

General

The President stated, in the State Department budget briefing:

"The financial burden, the mental fear and apprehension of the of the individual who is hurt by a catastrophic illness is really extremely serious. In order to protect these three million people who have no hope, none whatsoever, of protecting themselves after they are afflicted, we think is the right group to concentrate on, and we feel that we can redistribute the financial burden across the 25 other million people in order to protect those three, and all of those who might in the future be affected."

Refinements

The refinements were made in the cost of catastrophic, as I said yesterday, after the Budget had to be at the printers. That refinement adds between \$562-862 million in the estimated cost (for FY 77) of the catastrophic program. That reduces the total savings of the President's Medicare proposals to between \$1.5 and 1.7 billion (as opposed to the original \$2.2 billion estimate). This is accounted for, however, in the allowance for contingencies of the President's budget. (see p. 164 of the budget book)



Question: Still, however, the Government is saving money on Medicare while making the people who can least afford it pay more. Why can't you at least break even?

Answer: As the President said, some people will have to pay more. However, only part of the Federal Government's total savings is designed to offset the cost of catastrophic, and that is the \$1.8 billion from his cost sharing reforms. That, after all, is not far from the \$1.1 to \$1.4 billion we will be spending on catastrophic.

The additional \$909 million saved comes from the reimbursement limit, the intention of which is to lower the rate of inflation by improving patient incentives for economical use of health services. (p. 207 Special Analysis)

As Secretary Matthews said this morning on the "Today Show", many people forget that Medicare is an insurance program, and, as the cost of the services increase, so must the premiums. Yesterday I made reference to the increase in the monthly SMI (Supplementary Medical Insurance) premiums, from \$6.70 per month to \$7.20 per month. I ought to point out that this is an increase required by law, and matched by the Federal Government, and is not a new Administration proposal. Also, as such, it does not require an inflation impact statement, as I think that question was raised yesterday.



STATEMENT ON MEDICAID
FOR USE BY
ELLIOT RICHARDSON ET AL.
September 15, 1976

Jimmy Carter said yesterday that he plans to make the use of Federal Medicaid funds an issue in his coming debate with President Ford.

I am sure that the President will welcome discussion of this topic. In fact, I suspect that the President may raise it himself if Mr. Carter should somehow change his mind.

The facts are, of course, that Medicaid is a program operated and administered by the states, using Federal funds. Where the program is run badly, it is the responsibility of the state administration -- specifically of the Governor, and his Department of Human Resources, or whatever title the department dealing with health goes by in a given state.

Here is what Governor George Busbee, Jimmy Carter's successor as Governor of Georgia, has to say about the situation he found in the state's Medicaid program when he took office in 1975: "Medicaid abuses were eye-openers. During 18 years as a legislator, I have never encountered such duplicity."



Governor Busbee asked the Georgia legislature for one year to straighten out the "organizational nightmare" that Carter had left in the Department of Human Resources. "We made many substantive changes," Governor Busbee says, "but encountered so many problems with Medicaid that the job couldn't be finished."

Governor Busbee goes on to list in detail some of the abuses that the Carter administration had permitted to develop in the Medicaid program: "Nursing homes billing the state for a water ski boat. Trips to Hawaii. Purchases at a large Atlanta department store for which there was no accounting."

The dental program carried on under Medicaid was an area of particular abuse, according to Governor Busbee. "In one example," Busbee says, "the state was charged for three root canals and two caps for one patient. We discovered during an investigation that none of these services were performed." And then Governor Busbee draws the obvious conclusion: "I call that fraud."

No one has suggested that Jimmy Carter was personally involved in the corruption that existed in the Medicaid program in Georgia under his administration. But he was the man in charge. Through the laxity of his administration, these abuses were permitted to develop.



President Ford called last January for change in the current Federal law, passed under a Democratic administration, so that corruption of the kind found in the New York case or in Georgia under Carter can be permanently eliminated. The President's proposal would require that the states submit to a regularly conducted independent audit of their Medicaid expenditures.

Unfortunately, the Democratic Congress has so far failed to act on the President's proposal.

Perhaps it would be worthwhile if Carter would relate to his friends in Congress how corruption can develop in state administration of the Medicaid program, under current law. He can certainly speak with first-hand knowledge of the subject.

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