

LETTER WAS SENT TO PRESIDENT, FULL HOUSE AND SENATE

LEADERSHIP COUNCIL *of* AGING ORGANIZATIONS

March 11, 2005

The Honorable George W. Bush
The White House
Washington, D 20500

Dear President Bush:

On behalf of the members of the Leadership Council of Aging Organizations (LCAO), we are writing to express our disappointment with proposals and lower funding levels in the President's fiscal year (FY) 2006 for crucial programs that enable mature and older Americans to live independent and dignified lives.

Views reflected in the attached document should not be considered exhaustive of the interests of LCAO members, collectively or individually. Rather, while the individual interests of LCAO members go well beyond those set forth in these pages, the effort herein represents the common ground among more than 50 member national organizations and the more than 40 million senior citizens whose interests we represent.

Of principle concern to LCAO members are plans affecting Social Security and Medicaid. LCAO strongly opposes replacing any part of Social Security with individual accounts and considers such a move a threat to the program's long-term solvency. We also oppose any attempt to end the guarantee of Medicaid for eligible individuals by cutting program funding, or capping, or block granting the program.

We have a golden opportunity to prepare now for the enormous number of baby boomers who will need economic, health, and long-term care protection as they age. Unfortunately, the President's FY 2006 budget falls well short of this objective. Toward accomplishing these mutual goals, the LCAO requests and hopes that you will consider the recommendations to follow on health care, Social Security, Older Americans Act, and housing proposals and funding levels for these critical programs.

With a growing senior population, we offer these suggestions for a plan which will answer the human needs of our population and tap the talents of our senior population as a resource for the nation. We count among our membership organizations which serve seniors, advocate for their interests, and put their talents to use for communities across the country. While we count among our members millions of Americans, our interests are those of the entire nation.

We look forward to the opportunity to work with you to achieve shared goals.

Sincerely,

Alan Lopatin
LCAO Budget Committee
Co-Chairman

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LCAO Budget Committee
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COMMUNITY SERVICES

The President's budget proposal for home and community based services, if enacted, will weaken the ability of an already overburdened aging network to support frail older people and their caregivers in their homes and communities.

Older Americans Act

For the past several years, federal funding for Older Americans Act (OAA) services and other programs that support older people has failed to keep pace with inflation and has not expanded adequately to support the growing aging population. In fact, the President's FY 2006 budget funds some OAA programs below FY 2002 levels.

The OAA provides federal funding, which is matched with state resources, for programs and services for frail older people who are at risk of placement in an institutional setting. These services allow people who need assistance with activities of daily living to remain in their homes and communities with family and friends to support them a well. Services include but are not limited to: home-delivered meals, congregate meals, transportation, homemaker services, home modifications, caregiver support, medication management, disease prevention and health promotion programs, outreach, counseling and assistance, and long-term care ombudsman services. The aging network also provides individual decision support to thousands of Medicare beneficiaries who struggle with the myriad changes to the statute in recent years. The OAA authorizes a national 800 number (the Eldercare Locator) to help people find services for themselves or for older friends and relatives. The Senior Community Service Employment Program provides job training and placement services for low-income people age 55 and older who are willing and able to work but have poor employment prospects without additional training.

Social Service Block Grant

The Social Service Block Grant (SSBG) funds are used at the discretion of states to provide a variety of needed services to needy populations including seniors. In many areas, SSBG funds provide home care, abuse and neglect prevention, congregate and home-delivered meals, adult day care, legal services and transportation to seniors.

National Senior Service Corps

While the President's proposed budget includes modest increases in National Senior Service Corps programs (Retired and Senior Volunteer Program – RSVP, Senior Companion Program, and Foster Grandparent Program), even those increases are inadequate in providing sufficient opportunities for senior volunteers to expand to meet increasing community needs. Disappointingly, the President's budget retreats from a significant increase in RSVP proposed just last year and ignored by Congress.

Senior Transportation Services

Senior transportation services are funded through section 5310 of the Transportation Equity Act as well as Title III of the OAA. Transportation services are a critical part of the service delivery system, particularly as more elderly and younger persons with disabilities move back or stay in the community. Essential transportation needs - access to medical social and support services – if not met, result in increasing isolation and deterioration in health and well being. Currently there is an estimated \$1 billion per year in unmet senior transportation needs.

Section 202 Housing for the Elderly

Housing for low-income older people is funded through the Section 202 Supportive Housing for the Elderly program at the Department of Housing and Urban Development. The Section 202 program provides funds to non-profit housing sponsors in the form of capital development grants and rental assistance contracts. This successful, public-private partnership enables organizations to build safe, caring, quality, affordable housing communities for low-income seniors. Despite the program's success, the number of units produced falls far short of what is needed to address growing affordable housing shortages. AARP estimates there are nine seniors waiting for each Section 202 unit that becomes available.

Without increased and adequate federal funding, the aging network will not be able to support the demand for services the network is already experiencing as the baby boom generation ages. OAA and other federal programs provide an opportunity to give older people and their caregivers appropriate choices so they may remain living in their homes and communities and live with dignity and independence. The president's budget as proposed continues a pattern of insufficient or decreased funding for all the above essential services. Inadequate funding for such services presents a huge barrier to independent living for older people and undermines the national goals set forth in the president's "New Freedom" initiative.

The Leadership Council of Aging Organizations supports an increase of at least 10 percent for all programs that serve older people. LCAO will continue its efforts on Capitol Hill to garner support for our position to ensure that these important programs are adequately funded.

INCOME SECURITY

Social Security Reform

LCAO strongly opposes any form of privatization of the Social Security system, be it full or partial. Social Security is a fundamentally sound institution that does not need radical changes to make it viable for the 21st century. Social Security's projected shortfall after 2042 is manageable and can be corrected with *responsible* changes in revenue sources and/or benefits.

Drastic changes, however, particularly the diversion of payroll taxes to personal retirement investment accounts, would worsen solvency, reduce Social Security benefits, expose beneficiaries to unnecessary risk and would erode the very qualities that mark Social Security's success. These include the system's universality, efficiency, progressive benefits, equity,

generational solidarity, and the promise of benefits as an earned right. That's why LCAO and most Americans reject any changes that will undermine the social insurance nature of the Social Security system, which guarantees benefits over a lifetime.

It's important to note that privatization plans are not an answer to, and in fact will worsen, Social Security's long-term solvency. Paying for these accounts will likely require significant government borrowing and will leave a legacy of debt for future generations to repay.

While the President has called for the creation of individual accounts funded with Social Security dollars, no general revenue funds have been set aside for Social Security's long-term solvency. Given the costs of creating these accounts—at least \$754 billion over the first 10 years they are in operation—not allocating funds for this proposal is fiscally irresponsible. Future retirees will also be faced with greatly reduced Social Security benefits.

In determining the overall federal budget, the White House and Congress should always keep in mind the long-term shortfall Social Security faces. Record deficits—at least \$368 billion this year-- mean the federal government is not saving for Social Security's future, in fact, it's borrowing from it. If this continues to be the case, the next generations will be forced to foot the bill.

LCAO is disappointed that the President's budget fails to acknowledge this. Instead of reserving funds for Social Security's long-term solvency, the budget emphasizes broad and deep tax cuts that go disproportionately to those with higher incomes. As a result, the Administration is risking the future of Social Security – a risk that could be avoided by rearranging priorities and reallocating precious resources.

Pensions and Retirement Savings

LCAO public policies that will extend pension coverage and workplace retirement savings opportunities to the millions of Americans who are currently without them, most notably lower-paid and part-time workers. LCAO also supports policies that preserve and protect the rights of workers and retirees who already participate in employer-sponsored pension and savings plans. Unfortunately, comprehensive reform to ensure workers are adequately protected has yet to be enacted.

LCAO is also concerned about the continued trend among large employers to terminate traditional pension plans and substitute them with “cash balance plans.” Under traditional, defined benefit pension plans, which encourage stability in the workforce and reward experience, annuities are based heavily on the last few years of employment when earnings are generally highest. Conversion to cash balance plans can mean substantial losses in anticipated retirement income, especially to long-term employees.

Social Security was never meant to be the sole source of retirement income for Americans. The program works best in conjunction with employer-sponsored pensions and income from personal savings. While millions of American workers benefit from personal savings and/or private pensions, in addition to Social Security, millions more do not. The latter group includes a

disproportionate number of low- and moderate-income workers, women and those employed by small businesses.

The President's budget again proposes three new savings plans – Retirement Savings Accounts, Employer Retirement Savings Accounts, and Lifetime Savings Accounts. However, the benefits of these proposed accounts would, according to analysis done by the Tax Policy Center of the Urban Institute and the Brookings Institution, go overwhelmingly to those with incomes above \$100,000. They are also designed to produce increased tax revenues over the next five years, but lose enormous sums in future decades.

While LCAO believes there is a real need to expand pension coverage and retirement savings opportunities, the emphasis must be on those who need it most – lower and moderate-income wage earners. Those with higher incomes generally have ample opportunity to save and invest for retirement and do not need additional government-sponsored incentives to do so. Unfortunately, the President's proposal for a new generation of savings accounts is headed in the wrong direction, favoring higher income Americans.

Supplemental Security Income

LCAO recognizes the important role of the Supplemental Security Income (SSI) program in providing basic safety net protection for 6.6 million needy aged, blind and disabled adults and children. Improvements to the program, however, are greatly needed, and should include increasing the federal benefit standard to at least the poverty level; modernizing the administration of the program to better reach eligible seniors; increasing the indexing and resource limits; ending the policy of counting in-kind support and maintenance as income; and other reforms.

The President's budget essentially maintains the status quo, allowing for no modernization of SSI. In LCAO's view, SSI modernization is a moral imperative. Failure to address the pressing income needs of the poorest elderly is insupportable. We are very disappointed that the President's budget offers numerous tax benefits for wealthier Americans while not earmarking adequate revenues to improve the lot of our most vulnerable citizens.

HEALTH

Medicaid

The LCAO believes it is a priority that Medicaid be maintained as an entitlement. Its budget should not be cut to finance other initiatives.

Medicaid is the essential safety net program for seniors and Medicare beneficiaries with disabilities living in our communities.

While we represent the aging community, Medicaid is a cross-generation program. Medicaid is the source of health care to about 25 million children who are the future of our nation, its economy and productivity. Medicaid's costs have been growing because health care costs have

been growing and because traditional health insurance is becoming more and more unaffordable for Americans with low incomes. A person working full-time at minimum wage for a year would earn roughly the cost of a family health insurance policy — and still need to meet substantial deductibles and co-payments. The LCAO understand the concern of Federal and state budget officers over the growth of Medicaid costs. We ask you to consider that if it is difficult for these large volume purchasers to meet these health care bills, how can low-income individuals, acting alone, possibly manage?

Therefore, the LCAO urges the Administration to work with the States, providers, and consumers to find ways to help make the Medicaid program more efficient. From group buying, improved anti-fraud efforts, common billing codes and systems, to the sharing of ‘best practices,’ the Medicaid program can be made better. We support thoughtful efforts at improvement.

Just cutting the program, capping it, or ‘block-granting’ it at a lower funding level will not make the program better. Federal cuts will just shift costs to the states, many of which are bound by balanced budget amendments and have therefore been making multi-year cuts in the program. Federally-driven cuts will just shift more costs to the sickest and most vulnerable in our society, increase the number of uninsured (which the Institute of Medicine has shown increases the number of unnecessary and premature deaths), reduce the quality of care, and hurt the economies of state and local governments.

On the issue of quality of care, about 1.5 million Medicare beneficiaries are in nursing homes. These are preponderantly single or widowed women, over age 80, seventy percent of whom have some form of cognitive illness or memory loss. They are not able to live alone (even if they may still have a home). They tend to be very low income and cannot begin to afford the yearly cost of \$50,000 to \$70,000 for nursing home care. Medicaid pays for the cost of about 60 percent of those people. When nursing home payments are reduced and staffing is cut, quality suffers—bed sore incidence rises. Cutting, capping, or ending the Medicaid entitlement will be devastating and deadly to this kind of population.

LCAO supports greater flexibility for states to provide home and community services under Medicaid, but the LCAO calls on the Administration to reject the waivers for Medicaid Transfer of Asset rules requested by Connecticut, Massachusetts, Minnesota and any other state making similar requests. Such asset test waivers fail to conform to the basic purpose of Section 1115 waivers, since they are devoid of any attempt to expand or improve services or service delivery under a bona fide research or demonstration program and instead include an eligibility restriction intended to cut expenditures.

The Administration’s budget proposal cuts funding for various aspects of the Medicaid program by \$60 billion over a ten-year period. Reductions would come from changing pharmacy reimbursement policies, restricting transfer of assets eligibility, restricting intergovernmental transfers, restricting targeted case management, capping administrative expenditures, and several other proposals that will lower the federal funding for states without reducing Medicaid costs.

The President’s budget reaffirms the Administration’s commitment to block-granting Medicaid of at least part of the funding (administrative costs). The Administration has aggressively

encouraged states to use the Section 1115 waiver process to make significant changes to state Medicaid programs (including agreeing to a block grant), and these changes are likely to result in capped funding for those state programs. This would result in state-by-state block granting without waiting for legislative authority to accomplish this objective nationwide.

The budget proposal does include a several new initiatives, which should be evaluated on their ability to provide additional coverage to low-income populations and whether they provide adequate funds for states to implement the initiatives.

The draconian cuts proposed in the President's Medicaid budget would force states to cut beneficiary services and would affect the quality of care provided. The proposed cuts along with a continued emphasis on block-granting the federal Medicaid funding will significantly hamper states in their ability to meet the needs of people who rely on Medicaid for critical health care services. Although the budget also includes several initiatives that would help low-income people, these modest improvements are dwarfed by the funding cuts proposed by the Administration.

Medicare

The LCAO has urged that Congress take action to obtain cost savings in Medicare's payment for pharmaceuticals. Savings in this sector will slow the rate of inflation in Part D premiums, deductibles, co-pays, and the growth of the 'donut hole.' According to the Congressional Budget Office (CBO), the 'donut hole' is scheduled to rise from \$2,850 in 2006 to \$5066 in 2013. This type of drug inflation and deterioration in the value of the benefit is a major concern. Effective re-importation, negotiation of drug prices similar to the method used by the Department of Veterans' Affairs (VA), and consideration of therapeutic equivalence should all be considered by Congress as ways to save money in the new program. In the long run, it is essential that the public know which pharmaceuticals and medical devices and procedures work and which ones are not effective. We are pleased that the recent Omnibus Appropriations law includes \$15 million for clinical effectiveness studies in FY 2005. The law authorized \$50 million in FY 2004 and 'such sums as may be necessary' thereafter. The LCAO believes a much larger investment in this sector will pay off in long-term savings and better health care quality, and we urge a major increase in clinical effectiveness studies.

Under Title VIII of the Medicare Modernization Act (MMA), seven years before 45 percent of total Medicare spending comes from general revenues, Congress is to be warned and in the sixth year before the 45 percent trigger is reached, Congress is supposed to consider legislation to keep this level from being reached. The trigger can only be avoided by cutting benefits, payments to providers, raising the eligibility age, or raising payroll taxes. It is likely that the seven year warning will occur in about 15 months, if not sooner. We believe that this title of the new law will be unworkable, cause nothing but confusion and fear. By the nature of modern medicine, Parts B and D of Medicare (which are funded largely by general revenue) will always grow faster than Part A (funded largely by dedicated payroll taxes), and the 45 percent trigger will always be in danger of being exceeded. For these reasons, the LCAO urges you to suggest to Congress that they repeal this portion of Title VIII of the MMA.

If cuts in Medicare spending are required for other reasons, we urge that costs not be further shifted to beneficiaries. Medicare, even with the new drug benefit, only covers about 60 percent of total beneficiary medical costs: it provides little help for long term care and little or no help for vision, hearing, and other services. According to CMS data, a 65 year old with average health will pay 37.2 percent of the average Social Security check in Medicare deductibles, co-pays, and premiums in 2006. By 2078, the cost of those out-of-pocket deductibles, co-pays, and premiums will equal an astounding 97 percent of the average Social Security check. Almost half of these increases are due to the high rate of prescription drug inflation and are a testament to the need to slow that inflation. These figures are also an overwhelming argument against Medicare cost cutting, in their FY 2006 budget, which further shifts costs to beneficiaries.

The LCAO fears that the new Medicare law is terribly complex and confusing to the nation's Medicare beneficiaries and urges increased appropriations for education and outreach to beneficiaries, especially low-income seniors and those in hard-to-reach communities. We support funding of the locally run, volunteer-centered State Health Insurance Assistance Programs (SHIPs) at the rate of at least \$1 per Medicare beneficiary.

Several key areas are cut in the President's budget proposal for FY 2006 in the Medicare program. Medicare Operations are cut by \$42.8 million, Research, Demonstrations, and Evaluations, are cut by \$65 million, and Program Management is cut by \$22.2 million. These programs include such services as responding to beneficiary and provider inquiries, monitoring beneficiary access to Part B covered drugs, the *Medicare and You Handbook*, the website, and the State Health Insurance Assistance Programs, which counsel beneficiaries on benefits, including the new drug benefit.

The LCAO cannot support cuts to the Medicare program at such a critical time. With the new drug benefit ahead of us, it makes no sense to reduce some of the very programs that are designed to support its implementation.

Long-Term Care

LCAO believes the federal budget should include substantial additional resources for home and community-based long-term care services, including such programs as the National Family Caregiver Support Program that provide services and supports to caregivers of frail older people. LCAO also supports an end to the institutional bias in Medicaid, which would eventually make HCBS the norm rather than the exception for Medicaid recipients. Home and community-based services allow frail older people with chronic conditions or disabilities to stay in their homes to receive care and avoid premature or inappropriate placement in an institutional setting.

The President's FY 2006 budget proposes to promote the purchase of long-term care (LTC) insurance by eliminating the federal legislative ban on new long-term care partnership programs to allow any state in the nation the option of implementing a LTC insurance partnership program. HHS estimates that the proposal would have no cost impact in FY 2006 or over the FY 2006 -- FY 2010 period.

The President's FY 2006 budget (for the first time) did not renew support for an above-the-line deduction for long-term care insurance and a caregiver tax exemption.

The LCAO cannot support programs that link Medicaid eligibility to the purchase of private long-term care insurance unless they meet a number of criteria. They must not endanger the Medicaid safety net for low-income people who need long-term care, and they must include strong consumer protections, particularly regarding nonforfeiture and inflation protection, premium stability, and clear disclosure of current income requirements for Medicaid benefits and the state's right to change those requirements.

Also, they need to ensure that partnership policyholders are permitted to spend down to meet Medicaid's income eligibility requirements (this would require that all states have medically needy programs). There will also need to be a guarantee for the types of services (particularly home- and community-based services) that the state would provide to eligible partnership policyholders under Medicaid. These and other protections are necessary to ensure that such an expanded program helps and does not hurt beneficiaries.

TAX POLICY

In September 2004, new Congressional Budget Office (CBO) figures showed that the total, on-budget federal deficit in 2003 was \$536 billion. The projected deficit for 2004 was \$574 billion, with average projected deficits in excess of one half trillion dollars each year through 2010.

The specter of these deficits leaves stark choices in view of the current needs of seniors and the baby boom retirement which will begin in 2008: suffer continuous cuts in vital programs, mortgage the future of the next generation, or close the deficits by enhancing the revenue stream. LCAO believes that the least painful and most fair choice is to close the deficit. This can best be accomplished by revisiting and selectively repealing several of the tax cuts adopted over the past four years. Additionally, new tax cuts increase the deficit and are not targeted to those most in need and should be rejected.

Finally, LCAO urges you to oppose proposals to tax the value of an employee or retiree's health insurance benefit as if it were income and to increase the taxation of Social Security benefits.

The Leadership Council of Aging Organizations is a coalition of national non-profit organizations concerned with the well being of America's older population and committed to representing their interests in the policy-making arena.