

**TESTIMONY of
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on
VETERANS' MEDICARE PAYMENT ACT OF 2002 (H.R. 4939)
before the
HOUSE VETERANS' AFFAIRS COMMITTEE**

July 16, 2002

Good morning, Chairman Smith, Congressman Evans, and members of the Committee. Thank you for inviting us to discuss the Veterans Medicare Payment Act of 2002, and the importance of ensuring that America's veterans have access to the health care they need. One of the best ways we can do this is by strengthening and improving the Medicare program for all Americans. This includes adding a comprehensive prescription drug benefit, expanding Medicare coverage of preventive services, and protecting the long-term financial security of the program.

In recent months, we have been reminded once again of the contributions that members of America's armed forces, including veterans, have made and continue to make to our country. This Administration strongly supports providing all Medicare beneficiaries, including our nation's veterans, with a wide range of choices. To that end, last year, the President proposed a framework for strengthening and improving the Medicare program. We are pleased that the House of Representatives recently passed H.R. 4954, the Medicare Modernization and Prescription Drug Act, which takes a bold first step toward providing a long-overdue prescription drug benefit in Medicare and toward implementing many of the President's principles. We look forward to working with the Congress to ensure these measures become law this year.

BACKGROUND

When Medicare was created in 1965, President Johnson said, "No longer will older Americans be denied the healing miracle of modern medicine. No longer will illness crush and destroy the savings that they have so carefully put away over a lifetime."

Thirty-six years later, President Bush believes it is time for our nation to come together and renew that commitment to all seniors, including those who have made sacrifices for all Americans by serving in our armed forces. I share the President's view that we have a moral obligation to fulfill Medicare's promise of health care security for America's seniors and people with disabilities.

The 77 million Americans who will be entitled to Medicare in 2030 are counting on Medicare's promised benefits. Yet even Medicare's current benefits are not secure for the retirement of the Baby Boom generation. Medicare's fund for hospital insurance will face cash flow deficits beginning in about 15 years and is projected to become insolvent within 30 years. Medicare's fund for its other benefits will require nearly a doubling of beneficiary premiums and infusions of general revenues to remain solvent over the next 10 years. Consequently, we need to be careful stewards of the Medicare Trust Fund and ensure that any changes we make will not put at risk the health care security that older Americans now and in the future deserve.

The concept of "subvention," whereby Medicare would pay for care provided to Medicare beneficiaries at military, veterans', or other federal facilities, is a concept that has been around for a long time. There are many complex issues surrounding subvention including what benefits it really achieves, and whether care can be efficiently coordinated. Foremost, as a matter of principle and by law, the Medicare Trust Funds cannot, and should not, be used to pay for services for which monies have already been appropriated. This has always been a most difficult issue, and is even more so today given the current financing issues associated with the Medicare Trust Funds. We are concerned that subvention has the potential to undermine the long-term financial security of the Trust Funds. For example, the Administration's preliminary estimates are that H.R. 4939 could cost the Medicare program nearly \$32 billion over the next 10 years. As you know, the President is dedicated to strengthening and improving health care for all Medicare beneficiaries, including America's veterans. However, our first priority must be to fortify the current Medicare program.

STRENGTHENING MEDICARE

Medicare has provided health care security to millions of Americans since 1965. But its lack of prescription drug coverage demonstrates that Medicare is not keeping up with the rapid advances in medical care. Last week, the Department of Health and Human Services (HHS) released a report presenting evidence on significant improvements in the health of older Americans that have occurred because of recent breakthroughs in drug treatments -- enabling millions of seniors to live longer, more enjoyable and productive lives. The HHS report includes a detailed review of the drug breakthroughs for the following diseases: cancer, osteoporosis and hip fractures, asthma, arthritis, high cholesterol, heart disease, stroke, enlarged prostate, depression, Alzheimer's disease, diabetes, and migraines. With the wonderful medicines currently available, as well as all of the new breakthrough drugs in the pipeline, now is the time to create a Medicare drug benefit that will expand coverage and availability for all beneficiaries.

Recognizing the important benefits that advances in prescription drugs offer, President Bush worked with members of Congress across party lines to develop a framework for a modernized Medicare program and for keeping Medicare's benefits secure. The President's framework includes the following eight principles:

First, all seniors should have the option of a subsidized prescription drug benefit as part of modernized Medicare. The design of the drug benefit in H.R. 4954 will continue to encourage the valuable innovation in prescription drugs that holds so much promise for improving the health of seniors in the 21st century. This design is far preferable to some alternative proposals to create a very costly, government-run drug plan that would determine which drugs were “on formulary,” impede innovation, increase drug prices, and impose trillions of dollars in new obligations on a Medicare program that already faces a funding shortfall for the Baby Boom generation, threatening all of Medicare’s benefits.

The Administration also strongly supports provisions in H.R. 4954 that will help Medicare provide affordable coverage options that keep pace with modern medicine. The bill begins to address the chronic underfunding of private plans in Medicare and

takes important steps toward creating an effective system of private plan competition in Medicare. I might add that in allowing the VA to seek reimbursement from these plans, H.R. 4939 undermines these efforts. The bill creates more affordable Medigap options, provides regulatory relief and simplification, encourages innovative coverage options that will help beneficiaries with chronic diseases and special needs, improves the quality and reduces the costs of durable medical equipment and Medicare claims processing through competitive bidding, improves preventive coverage, and improves access to valuable new treatments. All of these steps will help beneficiaries get more value in terms of health improvements from the new drug benefit and all other Medicare benefits, and will enable them to do so at a lower cost.

The Administration is particularly pleased with the provisions included in H.R. 4954 that will provide immediate relief for seniors who have already waited far too long for prescription drug assistance. This includes the bill's authorization of a Medicare-endorsed prescription drug card and temporary assistance for low-income seniors until a full drug benefit is available. These provisions will allow seniors to start receiving help with drug costs beginning next year, not two years from now or longer, and they will help the Medicare program work with seniors and drug benefit providers to implement the Medicare drug benefit effectively.

Second, modernized Medicare should provide better coverage for preventive care and serious illnesses. Medicare's current cost-sharing often imposes the highest costs on those who need the most care. Individuals who need hospital care currently face a payment of more than \$800 for each spell -- and they can have several spells in a year -- and Medicare's coverage for hospitalizations can eventually run out. And unlike most private insurance, Medicare does not provide "stop-loss" protection to limit the financial obligations imposed on beneficiaries. At the same time, whether in Medicare itself -- or in the Medigap plans that seniors buy to fill in Medicare's coverage gaps -- first-dollar coverage often drives up costs and premiums for beneficiaries without yielding noticeable improvements in health. Thus we believe Medicare's coverage should be improved so that it provides better protection when serious illnesses occur and better coverage to help prevent these illnesses in the first place -- like having zero co-payments

on Medicare's preventive benefits while still encouraging prudent use of services and beneficiary involvement in health care decisions. Because they will encourage better use of preventive care and other services, better Medicare benefits will also help seniors and the Medicare program get the best value from the new drug benefit.

Third, today's beneficiaries and those approaching retirement should have the option of keeping the traditional Medicare plan with no changes. For us, this is obvious -- no one should be forced to accept significant changes they do not like and are not prepared for. Although we believe that a modernized Medicare program will be attractive to many current beneficiaries, we believe the choice rightly rests with them on whether to move from the existing program to the modernized one.

Fourth, Medicare should provide better health insurance options, like those available to all Federal employees and retirees. For too long, Medicare has been a "one size fits all" program, and we should offer options appropriate to the unique challenges various seniors face -- including the kind of innovative disease management programs that are threatened by chronic underpayments to private plans today. Private plans have been a critical source of drug coverage and other innovative benefits for seniors, and should remain so.

Fifth, Medicare legislation should strengthen the program's long-term financial security. Without strong measures to make the program more efficient being incorporated along with new benefits, all of Medicare's benefits will become less secure. Some might want to exploit the accounting gimmicks that Medicare's bifurcated Trust Fund system encourages and leave it to future generations to figure out how to pay for it. We cannot hide the fact that Medicare's financial security would be compromised should it have to pay Veterans' facilities for care that is already financed through an appropriation.

We want to work to make sure that the benefits we promise today will be there for beneficiaries tomorrow. This is why we must be prudent stewards of the Medicare Trust Fund, and why we must be vigilant in ensuring we do not take steps that could put the

long-term financial security of the Medicare program at risk. This is also why we support changes in Medicare's Trust Fund accounting to provide a clear picture of Medicare's financial outlook. We have all seen examples of how poor accounting practices can lead to poor planning, with devastating consequences for many Americans. It is critically important that we avoid such practices in a program that is so important to all Americans.

Sixth, the management of the government Medicare plan should be strengthened so that it can provide better care for seniors. We're working to do that now at CMS where we are able, but we also need legislation to proceed with such steps as competitive bidding so that Medicare and its beneficiaries can get better, market-based prices for the items it buys while ensuring high quality. We are pleased that H.R. 4954 takes steps to improve the quality and reduce the costs of durable medical equipment and Medicare claims processing through competitive bidding. However, we also want to ensure that competitive bidding can be implemented in a timely fashion.

Seventh, Medicare's regulations and administrative procedures should be updated and streamlined, while the instances of fraud and abuse should be reduced. Here, too, we have moved aggressively but we need help from Congress and want to work with Congress to enact into law. Regulatory reforms and simplifications are needed to reduce burdens on providers and on CMS at a time when we are implementing new benefits into the Medicare program.

Eighth, Medicare should encourage high-quality health care for all seniors. Recent reports from the Institute of Medicine and others have made clear the widespread opportunities for improving patient care that exist -- which are likely to benefit seniors more because they use more care. These studies have also shown that these problems are not the result of malfeasance, and made it clear that we need to change the environment for medical practice to one that encourages systematic and continuous improvements in care, not endless and costly litigation.

CONCLUSION

Beneficiaries eligible for both Medicare and veterans' health care benefits should enjoy a wide range of choices, and improved service, which is the true "bottom line" in this effort. The President strongly supports these ideas, and we are committed to meeting the challenges they present and learning as much as we can about how to continually improve such programs. We look forward to working with this Committee and Congress and as we strive to improve health care services available to our nation's Medicare beneficiaries and veterans. While we recognize the importance of ensuring that veterans have access to top quality health care, the issue of subvention has always been a difficult one. It is critical as we move forward in strengthening and improving the Medicare program that we ensure that any changes to the program do not harm the financial integrity of the Medicare Trust Funds. Thank you for the opportunity to discuss this with you today. I look forward to answering any questions you may have.