

**TESTIMONY OF  
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ON  
MEDICARE REFORM AND PRESCRIPTION DRUGS  
BEFORE THE  
SENATE SPECIAL COMMITTEE ON AGING  
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Chairman Craig, Senator Breaux, distinguished Committee members, thank you for inviting me to discuss modernizing and strengthening the Medicare program. President Bush believes our nation has a moral obligation to fulfill Medicare's promise of health care security for America's seniors and people with disabilities. To meet this obligation, the nation must act now to bring Medicare into the 21<sup>st</sup> Century. The President, the Secretary and I are urging Congress to provide more choices and better benefits to Medicare beneficiaries. In modernizing and improving what is now a \$270 billion program, we need to combine what we know are the strengths of the Medicare program with the best of what we know from the current private health insurance market and the Federal government's experience in running the largest employer-sponsored health insurance program. This is how we can best serve our current and future Medicare participants. I look forward to discussing with you today ways to improve the current Medicare system and to modernize the program's benefits.

Since Medicare was enacted in 1965, it has provided health care security to millions of America's seniors and people with disabilities. As successful as the Medicare program has been, it has not kept pace with decades of dramatic improvements in health care.

Medicare's current benefits package does not cover prescription drugs. Equally important, however, is that the program has not provided timely, consistent coverage for many modern technologies and preventive treatments. It also does not always protect beneficiaries against the high costs of treating serious illnesses, and it imposes unnecessary regulatory burdens on providers and patients. As a result, seniors may not always receive the most up-to-date treatment for their health problems. When Medicare was established in 1965, health care usually meant hospital care. Today, we understand the importance of preventing seniors from getting sick in the first place, but Medicare imposes cost-sharing requirements on preventive benefits that can keep beneficiaries from getting the treatments they need. As a result, Medicare beneficiaries today lack many of the choices and benefits available to millions of other Americans.

In 1965, Medicare was modeled after the private market at the time -- largely Blue Cross plans. These plans typically offered little or no coverage of preventive care and usually did not include a prescription drug benefit. Times have changed, but Medicare has not changed with them. The coverage that most Americans have today gives enrollees more choice and greater flexibility. It gives enrollees the option of receiving care at reduced cost from networks of preferred providers, and it covers prescription drugs. If we were creating the Medicare program today, it makes sense that we would model the program after what consumers are demanding from today's health care marketplace. We must bring Medicare into the 21<sup>st</sup> century: to expand its coverage, to improve its services and to give seniors more control and flexibility over the health care they receive.

The time to make these changes is now. With health care costs on the rise and the Baby Boom generation nearing retirement, Medicare faces serious financial challenges. The Medicare Trustees report, released this week, cites continuing increases in the cost of care. For example,

according to the report, Medicare expenditures for inpatient hospital care increased by 9.8 percent in 2002; Part B spending increased by 11.6 percent; home health went up 28 percent. So, not only is it important to offer modern, innovative health care choices for seniors, but to do so in a way that is fiscally responsible and does not make Medicare's finances worse off.

Seniors, particularly low-income seniors, need prescription drug coverage now -- it's long overdue -- and it is a big priority for President Bush and Secretary Thompson. But we must also update the program's structure to make the best use of today's modern health care delivery methods to maximize the benefits for current and future participants while addressing the long-term sustainability of the program. All Americans should be able to choose a health care plan that meets their needs at affordable prices. When people have good choices, when people are given different options, health plans have to compete for business -- which means higher quality and better coverage.

We look forward to working with Congress on legislation this year to bring more choices and better benefits, including drugs, to Medicare. Moreover, the President has offered a framework for modernization that would make sure that low-income seniors -- some of the most vulnerable Medicare beneficiaries -- receive significant additional financial assistance for the cost of drugs. The President has also proposed immediate savings through a Medicare-endorsed prescription drug card, which would offer seniors discounts between 10-25 percent, which is supplemented for low-income seniors by \$600 to help purchase drugs. The President has committed up to \$400 billion over the next ten years in his FY 2004 budget to pay for modernizing and improving Medicare, and has offered a framework that will give all Medicare beneficiaries access to:

- **Prescription drug coverage** that enables seniors to get the medicines they need;
- **More choices of more health care plans** -- just like Members of Congress and other federal employees enjoy today through the FEHBP;
- **Continued choice of doctors and hospitals** for the treatment and care they need;
- **No cost-sharing for preventive services** such as screenings for cancer, diabetes and osteoporosis; and,
- **Protection from high out-of-pocket costs** -- a huge gap in Medicare that threatens to rob seniors of their savings.

For too long, political conflicts have kept our nation from bringing the benefits of modern health care to Medicare. We are calling on members of Congress to work together with us to pass legislation this year -- America's seniors need relief, and this is the year to finally get it done.

### **MORE CHOICES -- INCLUDING TRADITIONAL MEDICARE**

We believe Medicare beneficiaries should be given more choices in how they receive their health care—and these choices should be strictly voluntary. For example, those beneficiaries with retiree benefits from their former employer could keep their current benefits. Those seniors who are happy with their current coverage in traditional Medicare will be able to keep that coverage and receive help with the high costs of prescription drugs for no additional premium.

**Traditional Medicare will continue to be there for those seniors who want it.** But all seniors should be offered different options, a range of options from which to choose, in both the public sector and private markets. And all of these choices -- all of them -- must include access to prescription drug coverage.

Improvements to Medicare should not force changes on today's seniors who are satisfied with the current system. But seniors who want more choices and better benefits will be able to select options providing additional benefits. Seniors will have the chance to select the health plan that fits their needs best -- people want the same options at 66 years of age that they want at 64. Under the President's proposal, beginning in 2006, Medicare beneficiaries will be given the choice of three options: Traditional Fee-For-Service Medicare, New Enhanced Fee-For-Service Medicare and Medicare Advantage.

### **TRADITIONAL MEDICARE**

As I mentioned earlier, the President's framework provides beneficiaries with the option of keeping their existing Medicare coverage. Should a beneficiary select the traditional benefit package, they will receive their current benefits, along with additional protection against high out-of-pocket prescription drug expenses. This protection will be provided at no additional cost to beneficiaries. In addition, beneficiaries in traditional Medicare will continue to be able to receive supplemental coverage from other sources, such as former employers, Medicaid or Medigap. The President's framework also adds two Medigap plans to the ten that are available currently. The new plans will include prescription drug coverage and additional protection against high out-of-pocket expenses. Those enrolled in traditional Medicare also would have the option of utilizing a new prescription drug card that would provide discounts of 10-25 percent off drug costs.

## **ENHANCED MEDICARE**

The second option outlined under the President's framework is Enhanced Fee-For-Service Medicare, which makes a number of structural changes to Medicare that would vastly improve seniors' flexibility to tailor health care plans to fit their needs. Under this option, beneficiaries would have a choice of health plans like the system that provides reliable health insurance options to all Federal employees in the Federal Employees Health Benefits program. Like traditional Medicare, the government would cover most of the cost of coverage and beneficiaries would have the choice of doctors and hospitals. Beneficiaries could go to any Medicare doctor or hospital, but those who seek treatment within a plan's network of preferred providers will pay less. Enhanced Medicare includes an improved benefits package, which would provide full coverage of cost-sharing on preventive benefits and protection from high out-of-pocket costs of inpatient hospital care. Beneficiaries in Enhanced Medicare will pay a single deductible, replacing the current Part A and Part B deductibles in traditional Medicare. In addition, those enrolled in Enhanced Medicare will have no hospital cost sharing for their first two inpatient hospital admissions in a year. Beneficiaries also will have the option of enrolling in a comprehensive prescription drug program that includes coverage of prescription medicines and protection against high out-of-pocket drug costs. Plans would be free to structure their benefit packages differently, provided they meet a basic federal standard, in order to provide beneficiaries with a broad selection of options. Low-income beneficiaries will receive additional assistance for no extra premium and will receive subsidies to limit their co-payments. We believe increasing beneficiaries choices among providers will give incentives to improve customer service and quality in the nation's health care system.

## **MEDICARE ADVANTAGE**

The third option under the President's framework is known as Medicare Advantage. Medicare Advantage is a way for beneficiaries to enroll in low-cost and high-coverage managed care plans. Currently 5 million Medicare participants choose to get their benefits from such plans (currently Medicare+Choice). In fact, according to an April 2002 study by Ken Thorpe at Emory University, low-income beneficiaries are disproportionately likely to enroll in Medicare+Choice. Many such beneficiaries may have difficulty affording the average Medigap plan that includes premiums over and above the Part B premium. The most popular Medigap plans have monthly premiums ranging from \$91 to \$161 without drug coverage, and from \$123 to \$256 for some drug coverage. Moreover, minority populations have shown a strong preference for Medicare+Choice, with 40.3 percent of African American beneficiaries and 51.6 percent of Hispanic beneficiaries enrolled nationwide. Medicare Advantage plans will offer broader coverage at a lower cost than the combination of Medicare and Medigap plans that many seniors choose. Health plans that participate in Medicare Advantage will offer benefit packages similar to the ones available in Enhanced Medicare, with protection against high out-of-pocket expenses and improved cost-sharing of preventive benefits.

Medicare Advantage plans would provide participants with Medicare's enhanced basic benefits package and drug coverage. However, the Medicare Advantage program offers improvements to the current Medicare+Choice system by providing supplemental premiums and subsidies for drugs, thereby avoiding carve out for that coverage in the benefits package, which is what typically occurs in Medicare+Choice plans today. Participants who select more efficient plans will benefit from savings, and some participants in the most efficient plans might pay no

premium at all to the Medicare Advantage plan and could potentially qualify for a rebate on their Part B premium. Creating a system in which different types of delivery systems compete to cover beneficiaries will result in a marketplace where plans in each system will have strong incentives to provide the most efficient and highest quality care. Just as in Enhanced Medicare, low-income seniors could pay no additional cost for a drug benefit offered through Medicare Advantage plans.

### **PROVIDING IMMEDIATE ASSISTANCE**

All comprehensive Medicare drug benefit proposals, including those offered by Democrats and Republicans will require significant lead time prior to implementation. Given that seniors need help now, the President's framework is designed to provide significant and immediate assistance to low-income beneficiaries with their prescription drug costs. To ensure that seniors are provided help as soon as possible, the President will ask Congress to immediately provide all seniors with a drug discount card that is estimated to achieve discounts of 10 to 25 percent on the cost of individual prescriptions by pooling the buying power of Medicare participants. In addition to the discount card, the President's plan would provide low-income seniors with a \$600 annual subsidy for drug coverage, which will continue for low-income seniors who stay in traditional Medicare. This subsidy can be added to their discount card and used at the point of sale, or alternatively paid to existing Medicare+Choice health plans that enroll low-income seniors and provide them with prescription drug coverage.

The President's framework, however, is exactly that -- an outline. There are a number of things to consider and many details of the proposal need to be developed with the help and input of

Congress. We want to work out a long-term solution for seniors while being cognizant of the long-term fiscal impact of the decisions we make. Therefore, the Administration is determined not to add a new drug benefit to Medicare without significant reform of the program's existing structure.

## **REGULATORY AND CONTRACTOR REFORMS**

As I hope I've made clear, strengthening and modernizing Medicare is one of the Administration's top priorities. In addition to helping craft the President's framework, we at CMS are working to modernize and strengthen the Medicare program administratively through updating and streamlining Medicare's regulations and administrative procedures. The Secretary's Advisory Committee on Regulatory Reform developed more than 250 specific recommendations, a majority of which pertain to CMS. We are addressing a significant portion of the Committee's report by reducing the burden of inefficient, as well as unnecessarily complex and confusing regulations. We have already implemented recommendations made by the Committee to reduce the burden of data collection on beneficiaries and providers. These are common-sense solutions to ensure that health care professionals can spend more time with patients and less time with paperwork.

Another integral part of our regulatory reform efforts is our work to improve performance through provider education and outreach. We have expanded our Local Provider Education and Training program (LPET). This year we increased funding for LPET by 30 percent, which is targeted to respond to problems identified through the review of claims. Providers are receiving more education related to their claims submission. Clinicians deliver most of the education, and

respond to specific coverage or coding issues. Contractors meet with providers in group settings, individually, or communicate using the Internet. As a result, our contacts with the provider community are more collaborative and productive.

Clearly, we have worked diligently toward eliminating unnecessary regulatory burdens in Medicare and improving our management of the private-sector contractors that process and pay Medicare claims. The Administration's primary goals for Medicare contracting reform include providing CMS with more flexibility to adapt its business model to meet the evolving needs of the Medicare program and bringing competitive discipline to the world of Medicare administrative contracting. We also believe that contracting reform will provide opportunities to improve communication between CMS, contractors and providers, and will promote our ability to reward contractors that perform in an excellent manner.

## **APPEALS**

Another area we are working hard to reform is the Medicare appeals process. As required by law, we provide a multi-level process for Medicare beneficiaries, providers, and suppliers to appeal when they disagree with a Medicare contractor's decision to deny Medicare claims for items or services. We recognize the need to make this process more efficient and accurate. Currently, we are working aggressively to implement the Medicare appeals reform as required by the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA). Also, the President's Budget proposes legislative changes to give HHS the authority to streamline and make more efficient the appeals process in the BIPA framework, and includes funding to cover implementation costs. The Budget also proposes transferring the adjudicative

function performed by the Administrative Law Judges at the Social Security Administration to CMS and we are proceeding aggressively toward that transfer. We have already had extensive discussions with about transferring the Medicare hearing function to CMS. We are moving forward and have published Notices of Proposed Rulemaking (NPRM) on both sections 521 and 522. The NPRM for BIPA section 522 was published in the Federal Register on August 22, 2002. The comment period ended October 21, 2002. The NPRM for BIPA section 521 was published in the Federal Register on November 15, 2002. The comment period ended January 14, 2003. We are currently reviewing the comments.

## **CONCLUSION**

President Bush, Secretary Thompson, and I are determined to work with Congress to modernize Medicare and add a drug benefit to the program. This Administration has started the process by reaffirming our commitment to devoting substantial new resources to Medicare. The President has also offered a strong framework for building a comprehensive, effective Medicare modernization plan that will provide America's seniors with a much-needed drug benefit and offer them the same kind of choices and flexibility that federal employees, and frankly, most other Americans enjoy. The Administration is determined to work with Congress to get this debate moving forward, so that seniors now and in the future get the type of Medicare program they need and deserve.

Thank you for the opportunity to discuss this very important topic with you today. I hope that I have been able to express the Administration's dedication to strengthening Medicare, as well as our commitment to work with you to do so. I look forward to answering your questions.

