



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

June 26, 2003
(House)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

H.R. 1 - Medicare Prescription Drug and Modernization Act of 2003

(Reps. Hastert (R) IL, Thomas (R) CA, and Tauzin (R) LA)

The Administration supports House passage of H.R. 1. This bill is an important first step toward implementing many of the President's principles for strengthening and improving Medicare. This bill would provide beneficiaries with more options and better benefits, including long-overdue prescription drug coverage in Medicare. Since Medicare was enacted in 1965, it has provided health care security to millions of America's seniors and people with disabilities. Medicare is the binding commitment of a caring society, and a commitment that we must keep. H.R. 1 furthers this commitment and is broadly consistent with the President's Framework to Modernize and Improve Medicare.

We must honor our commitment to bring affordable health care to seniors by ensuring that Medicare is modernized to meet the needs of today's seniors. When Medicare was launched 38 years ago, it was designed to focus on a different set of needs, needs that did not include prescription drug coverage and preventive care. Modern Medicare must be improved to give our seniors the best, most innovative care provided by a system that is based on competition, not bureaucratic rules and regulations.

The Administration is especially pleased that H.R. 1 would create a new Enhanced Fee-For-Service (EFFS) option and that it continues to support Medicare+Choice (renamed Medicare Advantage) plans. Both EFFS and Medicare Advantage will provide beneficiaries with a prescription drug benefit that is integrated into broader medical coverage beginning in 2006. The Administration believes that integration makes it easier for beneficiaries to understand their benefits and ensures that the package more closely resembles products found in the private market today. This new EFFS option and Medicare Advantage would offer Medicare beneficiaries the opportunity to choose the coverage that makes the most sense to them, just as Federal workers and Members of Congress do through the Federal Employees Health Benefit Program.

By establishing the EFFS program, H.R. 1 would offer beneficiaries a new, patient-centered choice that is more adaptable to advances in medical services than is traditional Medicare. EFFS and Medicare Advantage plans will give seniors and people with disabilities the benefit of modern health care delivery systems and methods that have proven successful in the private sector with a greater emphasis on preventive services and coordination of care for people with chronic medical conditions.

By expanding private sector innovation and competition within Medicare, these options will provide seniors with quality health care at more reasonable prices. These plans also will adapt more quickly to advances in medical care than the traditional Medicare program, which requires complex regulations and Acts of Congress to change. In addition, the new private Medicare plans should cover certain existing preventive services without requiring beneficiaries to meet deductibles or to make copayments.

Making these options available to seniors and people with disabilities is a critical element of the President's framework. To assure that this new option is both stable and viable, the government contribution to ERF should be based on market principles. The Administration will continue to work with the House to improve this provision.

The Administration believes that a prescription drug benefit works best when it is incorporated into a comprehensive package of medical benefits. H.R. 1 would include such benefits in ERF and Medicare Advantage plans, but also would provide coverage through stand-alone drug policies. It is essential that private entities bear insurance risk for this stand-alone coverage and we are pleased that H.R. 1 does not include a federally insured "fallback" provision.

The Administration is also pleased that the bill includes authorization for a prescription drug card that will provide immediate assistance to all Medicare beneficiaries prior to the availability of the broader benefit. As in the President's Framework, the bill includes additional assistance to low-income beneficiaries prior to implementation of more comprehensive prescription drug coverage in 2006. These provisions will allow seniors to start receiving help with drug costs beginning next year.

The Administration also supports provisions in H.R. 1 that preserve existing law provisions permitting beneficiaries to join private fee-for-service plans and allowing such plans to provide an unmanaged form of the subsidized prescription drug benefit. The Administration looks forward to working further with Congress to clarify that the plans that use networks, as authorized in existing law, may vary cost-sharing between network and non-network providers without obtaining explicit approval from HHS.

Although the Administration has not yet estimated the costs of H.R. 1, we note that CBO estimates show that the bill's costs are within the amounts allocated by the budget resolution, \$400 billion over the period 2004-2013. The Administration commends the authors of the bill for staying within the parameters of the budget resolution.

The Administration commends the House for recognizing the need to provide protection against catastrophic prescription drug costs. However, the Administration would like to work with Congress on the income related-requirements for the catastrophic limits to ensure that they can be effectively administered.

Moreover, the Administration supports provisions in the bill that would require a clear and transparent assessment of the unfunded obligations of the Medicare system. The Administration will continue to work with Congress to improve the information available to policy makers to help better assess Medicare's long term financial status.

There are a number of provisions that would increase the costs of the program and are unrelated to strengthening and improving Medicare, such as the provision of increasing payments for ambulances. H.R. 1 also includes hospital payment provisions that may complicate the hospital prospective payment system, such as the provision modifying the inpatient technology pass-through provisions, among others. In addition, the Medicaid/SCHIP provisions - especially the provision increasing the currently sufficient Medicaid DSH payments - that would allow funds to be diverted to other unrelated purposes should not be included. All of these provisions either were not included in the President's Budget or are unrelated to the goal of this legislation and should be removed.

Provisions in H.R. 1 relating to contractor and regulatory reform, which the Administration generally supports, should be modified to avoid unintended consequences and duplication of existing administrative initiatives and to maintain and support the Administration's efforts at combating waste, fraud, and abuse in the Medicare program. For example, the prior determination process required in this legislation adds a major new programmatic task that could delay beneficiaries' access to needed services.

The Administration looks forward to continuing to work with Congress to address certain constitutional and other policy concerns and to enact fiscally responsible legislation that strengthens Medicare and improves the program for current beneficiaries and future retirees.

Pay-As-You-Go Scoring

The Budget Enforcement Act's pay-as-you-go requirements and discretionary caps expired on September 30, 2002. The Administration supports the extension of these budget enforcement mechanisms in a manner that ensures fiscal discipline and is consistent with the President's Budget.

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