



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

June 27, 2002
(House)

STATEMENT OF ADMINISTRATION POLICY

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

H.R. 4954 - Medicare Modernization and Prescription Drug Act of 2002

(Rep. Johnson (R) CT and 26 cosponsors)

The Administration supports House passage of H.R. 4954. This bill is an important first step toward providing a long-overdue prescription drug benefit in Medicare and toward implementing many of the President's principles for improving and strengthening Medicare. The Administration supports a drug benefit that protects seniors against high expenses, that allows them to choose a plan that provides the drugs they and their doctors prefer, that lowers drug prices, and that strengthens and complements the coverage from employers, unions, private plans, and other sources that provide some prescription drug coverage to almost three-fourths of Medicare beneficiaries today. 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, unprecedented government-run drug plan that would determine which drugs were "on formulary" and impede innovation, that would increase drug prices, and that would 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 up 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. 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 the bill 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. We look forward to working with Congress to assure that this question is adequately addressed by this legislation.

The Administration looks forward to working with the Congress to produce a fiscally responsible bill and to further implement the President's goals for improving Medicare, including the creation of a broader range of reliable coverage options for seniors and protecting the financial security of Medicare's promised benefits. Specifically, the Administration will work with Congress to improve the bill to:

– Give seniors access to reliable health care coverage options that can reduce costs for them and for Medicare by further improving the Medicare+Choice system. The current Medicare+Choice payment formula is flawed, contributing to reduced benefits, dropped service, and inadequate coverage options in many areas. Right away, Medicare's payment system for Medicare+Choice plans should better reflect medical cost increases and should target those organizations facing the greatest disparity between current payments and rising health care costs. Medicare's payment system should also do more to encourage the entry of innovative plans like preferred provider organizations which many seniors depended on prior to enrolling in Medicare. Millions of seniors prefer Medicare+Choice plans, and all seniors deserve the reliable coverage options and opportunities for reducing their medical costs that would result from a fair and effective system of health plan payment.

– Target new spending to improving Medicare's benefits for seniors. The Administration supports improvements in provider payment rules to address unexpected reductions, such as those facing physicians. However, Medicare fee-for-service payments to providers will amount to nearly \$220 billion in FY 2003 (\$1.2 trillion from FY 2003-2007) and will grow on average 5.3% annually from FY 2003-2007, which is sufficient to provide adequate Medicare payments for all providers. The Administration firmly believes that the first priority for any new spending in Medicare is providing a responsible and effective prescription drug benefit and improving coverage options for seniors. Budget funds must be preserved for other critical priorities like reducing the number of uninsured and making health care more affordable for all Americans.

– Address a number of other concerns about H.R. 4954, including: (1) deleting provisions that could significantly delay implementation of competitive bidding; (2) revising many of the appointment and reporting processes for the offices, commissions, and boards created by the bill to preserve executive branch prerogatives; and (3) improving the workability of the inpatient technology pass-through provisions and other hospital payment provisions that may complicate the hospital prospective payment system.

The Administration looks forward to continuing to work with the Congress to pass a fiscally responsible bill this year that the President can sign that strengthens Medicare, including a prescription drug provision.

Pay-As-You-Go Scoring

Any law that would reduce receipts or increase direct spending is subject to the PAYGO requirements

of the Balanced Budget and Emergency Deficit Control Act and could cause a sequester of mandatory programs in any fiscal year through 2006. The requirement to score PAYGO costs expires on September 30, 2002, and there are no discretionary caps beyond 2002. Preliminary CBO estimates indicate that the bill would increase direct spending by \$340 billion over the next ten years. The Administration will work with Congress to ensure fiscal discipline consistent with the President's Budget and a quick return to a balanced budget. The Administration also will work with Congress to ensure that any unintended sequester of spending does not occur.

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