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Congress of the United States

House of Representatives COMMITTEE ON WAYS AND MEANS

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February 8, 2002

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The Honorable Tommy Thompson
Secretary
U.S. Department of Health and Human Services
200 Independence Avenue, SW
Washington, DC 20201

The Honorable Mitchell E. Daniels
Director
Office of Management and Budget
725 17th Street, NW
Washington, DC 20503

Dear Secretary Thompson and Director Daniels:

Thank you for testifying at the Ways and Means Committee this week. We appreciate your hard work in developing the President's budget in this difficult time for our nation.

As we stated in the hearings, we commend the President for not reducing the resources he devoted to prescription drugs and Medicare modernization last year, notwithstanding the new realities of the war on terrorism and an economic downturn, which has produced short-term budget deficits. We share your commitment to ensuring that our seniors and disabled beneficiaries receive the highest quality of care for a price our taxpayers can afford.

The President's budget provides \$190 billion over 10 years for prescription drugs and Medicare modernization, of which \$77 billion is reserved for low-income drug assistance. The budget proposes spending increases for private plans in Medicare of \$4.1 billion. It also proposes several modest savings proposals – competitive bidding for durable medical equipment, Medigap reform, Medicare Secondary Payer and Graduate Medical Education reform – which collectively total \$6.5 billion. Hence, there is \$116 billion remaining for prescription drugs for all non-low income beneficiaries and Medicare modernization. Although we believe \$116 billion is insufficient for a comprehensive prescription drug benefit, we assume you share our belief that none of this money is intended for provider payment increases.

The Administration's budget includes a statement that any provider payment adjustments must be budget neutral in both the short and long-term. However, the Medicare Payment Advisory Commission (MedPAC), a non-partisan advisory committee of Medicare experts, recently recommended provider payment changes that could collectively total more than \$174 billion over 10 years. The MedPAC recommendation for reforming the physician sustainable growth rate alone would cost \$128 billion according to the CMS actuary. Clearly, we are not suggesting that we could afford, or that we should implement every MedPAC recommendation. However, MedPAC has identified serious problems, such as significant and successive payment cuts to physicians, which are unsustainable and require reform.

Does the Administration believe Congress should address *any* of the problems identified by the MedPAC (see attached list) with respect to hospitals, home health agencies, physicians, skilled nursing facilities and dialysis facilities? Please identify which provider problems you believe merit Congressional action and which do not. Since the budget calls for budget neutral payment adjustments, please provide a specific list of Medicare savings recommendations, which can finance appropriate provider payment changes.

Given the short legislative year, and our intention to act on Medicare legislation this spring, we would appreciate a prompt and detailed response to these requests.

Best regards,



Bill Thomas
Chairman
Committee on Ways and Means



Nancy L. Johnson
Chairman
Committee on Ways and Means
Subcommittee on Health

Enclosure: MedPAC Recommendations

WMT/NLJ/jm

Medicare Payment Advisory Commission Recommendations	10 yrs Billions
<u>Physicians</u>	
<ul style="list-style-type: none"> The Congress should repeal the sustainable growth rate and replace it with the Medicare Economic Index. The Secretary should revise the physician productivity offset from -1.5% to -0.5% to reflect the productivity of all costs rather than just labor. The resulting update for 2003 is 2.5%. 	\$127.7 ¹
<u>Hospitals</u>	
<ul style="list-style-type: none"> The Congress should phase out the difference in the inpatient national rates between hospitals in MSAs >1 million and hospitals in all other areas starting in 2003. In the first year, the update for hospitals in MSAs <1 million and rural areas should be increased 0.55%. 	\$15 *
<u>Rural Hospitals</u>	
<ul style="list-style-type: none"> The Congress should revise the Medicare Disproportionate Share payment formulas so that the payments for rural and small urban hospitals are capped at 10% rather than 5.25%. 	\$1.8 ²
<u>Skilled Nursing Facilities</u>	
<ul style="list-style-type: none"> If refinement of skilled nursing payment system is adopted by the Secretary as planned, Congress should fold-in the resource utilization group (RUG) add-on payments into the skilled nursing rates. 	\$10 ³
<u>Home Health Agencies</u>	
<ul style="list-style-type: none"> The Congress should update home health payments by market basket for FY 2003. (Current law is mb- 1.1%.) The Congress should retain the 10% bonus payments for rural home health agencies. 	\$2 *
<ul style="list-style-type: none"> The Congress should eliminate the 15% adjustment to home health payments, which otherwise would result in a 4% to 7% reduction in payments. 	\$17 *
<u>Dialysis Facilities</u>	
<ul style="list-style-type: none"> The Congress should update dialysis payments by 2.4% in 2003. 	\$0.5 *
TOTAL	\$174

¹Office of the Actuary, Centers for Medicare and Medicaid Services (CMS), February 7, 2002

²Medicare Payment Advisory Commission, February 7, 2002

³CMS, Health Care Industry Market Update, February 6, 2002

⁴Congressional Budget Office (CBO), January, 2002

*Estimates based on BBRA, BIPA and discussions with CBO, February 6, 2002