13. MEDICARE

Table 13–1. Federal Resources in Support of Medicare
(Dollar amounts in millions)

Function 570	1993 Actual	2001 Estimate	Percent Change: 1993–2001
Spending:			
Discretionary budget authority	2,829	3,372	19%
Mandatory outlays	127,903	218,820	71%

At the beginning of the Clinton-Gore Administration, Medicare was projected to become insolvent in 1999. Throughout the past eight years, the Administration proposed and secured important legislation and took appropriate administrative actions that strengthened the Medicare program and modernized it for the 21st Century. The Administration's stewardship of Medicare has resulted in the longest Medicare Trust Fund solvency in a quarter century, extending the life of the Medicare Trust Fund by a total of 26 years and offering beneficiary premiums that are nearly 20 percent lower today than projected in 1993.

Plan to Restructure Medicare

The Administration also proposed a new and comprehensive plan to strengthen and modernize Medicare for the 21st Century. The Administration's plan prepares the program for its upcoming health, demographic, and financing challenges. This initiative would: (1) make Medicare more competitive and efficient; (2) modernize and reform Medicare's benefits, including the provision of a long-overdue voluntary prescription drug benefit and cost-sharing protections for preventive benefits; and, (3) dedicate part of the non-Medicare/Social Security surplus to the program to extend the life of the Medicare Trust Fund as an alternative to beneficiary cuts or further provider reductions.

Make Medicare More Competitive and Efficient: The Administration's proposal would make the traditional fee-for-service program more competitive through the use of market-oriented purchasing and quality improvement tools to improve care and constrain costs. It would provide new or broader authority for competitive pricing within the existing Medicare program, incentives for beneficiaries to use physicians who provide high quality care at reasonable costs, coordinated care for beneficiaries with chronic illnesses, and other best-practice private sector purchasing mechanisms. The President's competitive defined benefit proposal would, for the first time, inject true price competition among managed care plans into Medicare, which make it easier for beneficiaries to make informed choices about their plan options and, over time, save money for both beneficiaries and the program.

Modernize Medicare's Benefits: The President's initiative would also modernize Medicare's benefit structure by adding a long-overdue voluntary outpatient prescription drug benefit. The Administration's proposal offers a broad-based benefit through the Medicare program. A broad-based benefit ensures that all Medicare beneficiaries receive a standard, affordable drug benefit and is the only means by which to provide effective assistance. This historic drug benefit has no deductible and pays for half of the beneficiary's drug costs from the first prescription filled each year up to $5,000 in spending when fully phased-in.

This benefit also ensures that beneficiaries' liability for drug cost sharing is limited to $4,000. The benefit provides beneficiaries with a price discount similar to that offered by many employer-sponsored plans for each prescription purchased—even after the $5,000 limit is reached. The Administration's plan ensures low-income beneficiaries assistance with cost-sharing. The Administration estimates the costs of this benefit at $253 billion over 10 years.

Extend the Life of the Trust Fund: While the President's Medicare plan would strengthen the program and make it more competitive and efficient, no amount of policy-sound savings would be sufficient to address the fact that the elderly population will double from almost 40 million today to 80 million over the next three decades. The President's proposal would take the Hospital Insurance (HI) Trust Fund off-budget, ensuring that its surpluses are not used for any other purposes and, therefore, will be used for debt reduction. The proposal would transfer the $115 billion of interest savings due to the resulting debt reduction to the HI Trust Fund to ensure that it remains solvent until at least 2030.

Without new financing, excessive and unsupportable provider payment cuts or beneficiary cost sharing increases would be needed. Protecting the Medicare surplus for Medicare is necessary in order to maintain solvency of the Trust Fund into the future.

Legislative Successes

During the last eight years the Administration advocated strongly for several pieces of crucial legislation that have been instrumental in making Medicare more efficient and extending its Trust Fund solvency through program reforms and increased program integrity efforts.

The Omnibus Budget Reconciliation Act of 1993 (OBRA 1993): The President proposed and later signed, on August 10, 1993, legislation that was the Administration's first step towards improving Medicare solvency. OBRA 1993 increased the percentage of Old-Age and Survivors and Disability Insurance benefits that are subject to the income tax, transferring the increased revenues to the Medicare HI Trust Fund. OBRA 1993 also reduced the growth rates of Medicare payments to providers such as hospitals, skilled nursing facilities, and home health agencies.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA): The President also proposed and, on August 21, 1996, signed additional legislation, HIPAA, which created a new and stable source of funding to fight Medicare fraud and abuse. It provided mandatory funding to the Health Care Financing Administration (HCFA) for specified program integrity functions such as medical review and audit. It also provided mandatory funding for the Office of the Inspector General in the Department of Health and Human Services (HHS) and the Department of Justice for investigation and prosecution of fraudulent providers in the Medicare program. Since HIPAA's passage, nearly $1.6 billion in fraud and abuse savings has been returned to the Medicare Trust Fund. Moreover, the HCFA actuaries attribute some of the recent decreases in Medicare expenditures to certain efforts to combat fraud and abuse. The actuaries conclude that the Department of Justice investigations, subsequent indictments, and the possibility of triple damages may have prompted hospitals to reduce the incidence of "up-coding" (i.e., excessive billing for hospital procedures) which has contributed to the increased solvency of the Medicare Trust Fund.

HIPAA also provided the Administration with the authority to develop a single set of national standards for all health care providers and health plans that engage in electronic administrative and financial transactions to promote more cost-effective electronic claims processing and coordination of benefits. Implementation of this law will eliminate administratively burdensome, duplicative, and wasteful billing requirements for health care providers and insurers.

The Balanced Budget Act of 1997 (BBA): In 1997, the Administration secured enactment of this legislation, which balanced the budget, modernized the Medicare program, and added at least 10 years to the life of the Medicare Trust Fund. The BBA included a series of structural reforms, bringing Medicare in line with the private sector and preparing it for the baby boom generation. These reforms included: 1) increased number of health plan

options; 2) improved Medicare managed care payment methodology and informed beneficiary choice; 3) new prospective payment systems for skilled nursing facilties, home health, inpatient rehabilitation hospital, and hospital outpatient departments; and, 4) new private-sector purchasing tools such as competitive bidding for durable medical equipment.

The BBA also made important changes to beneficiary services which include: 1) a waiver of cost-sharing for mammography services and the provision of annual screening mammograms for beneficiaries age 40 and over; 2) a diabetes self-management benefit; 3) Medicare coverage of colorectal screening and cervical cancer screening; 4) coverage of bone mass measurement tests to help women detect osteoporosis; and, 5) increased Medicare reimbursement rates for certain immunizations to protect seniors from pneumonia, influenza, and hepatitis.

The Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999 (BBRA): After the BBA's enactment, it became clear that some of the payment reductions needed modification. The Administration worked to secure enactment of the BBRA, addressing the larger than intended cuts in payments to Medicare providers. Complementing the over 25 actions taken by the Administration to improve Medicare payment methodologies, the BBRA increased Medicare payments for hospitals, nursing homes, home health agencies, managed care plans, and other Medicare providers. The bill modified the hospital outpatient department prospective payment system by smoothing the transition for certain hospitals that are greatly affected by enactment of this system.

In addition, the BBRA increased payments for rehabilitative therapy services, provided longer coverage of immunosuppressive drugs, and established limits on outpatient department coinsurance. The law altered HCFA's plan for risk adjustment for managed care plans by allowing for a five-year phase-in plan. The law also provided an entry bonus for managed care plans entering counties not previously served and for plans that had previously announced that they were withdrawing from certain counties.

The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA): The Administration worked to secure enactment of the BIPA, which invests about $35 billion over five years in order to address some of the overly aggressive payment reductions resulting from the BBA of 1997 as well as other shortcomings in the Medicare program. The BIPA addressed the needs of health care providers by increasing Medicare reimbursement to hospitals, nursing homes, home health agencies, and other providers. The BIPA expanded the preventive benefits available to all Medicare beneficiaries including new nutrition therapy and glaucoma screening and ensured greater access to colon and cervical cancer screening. It reduced the cost-sharing that beneficiaries have to pay for hospital outpatient services; provided permanent coverage of drugs that help prevent the rejection of organ transplants; and facilitated the use of therapeutic adult day care services for persons with Alzheimer's disease. Finally, the BIPA established an improved coverage and appeals process for beneficiaries to ensure that they have access to the health care services they need.

Administrative Actions

In addition to securing important legislation, the Administration has used its administrative authority to improve and modernize the Medicare program. One of the major administrative efforts was Operation Restore Trust, which aimed to reduce Medicare fraud through provider and beneficiary awareness. Its Nursing Home Initiative, to improve the quality of care for Medicare beneficiaries residing in nursing homes, resulted in a major increase in enforcement actions. The Administration also launched efforts to increase beneficiaries' awareness of Medicaid's cost sharing assistance programs; long-term care options; and, preventive services including a major drive to increase the number of seniors receiving flu shots.

Most significantly, the Administration took action to increase access to clinical trials for Medicare beneficiaries. Previously, Medicare did not pay for items and services related to clinical trials because of their experimental nature, i.e., their unknown benefits and potential risks to Medicare

beneficiaries. The absence of Medicare coverage has been a contributing factor to these low participation rates by the elderly. On June 7, 2000, the President issued an Executive Memorandum directing the Medicare program to revise its payment policy and immediately begin to reimburse providers explicitly for the cost of routine patient care associated with participation in clinical trials. The President also directed HHS to take additional action to promote the participation of Medicare beneficiaries in clinical trials for all diseases, including: activities to increase beneficiary awareness of the new coverage option; actions to ensure that the information gained from important clinical trials is used to inform coverage decisions by properly structuring the trial; and reviewing the feasibility and advisability of other actions to promote research on issues of importance to Medicare beneficiaries.

Medicare Management Reform

In its 1999 Budget, the Administration introduced its management reform initiative to address the challenges facing HCFA. These challenges include modernizing its administrative infrastructure, meeting pressing statutory deadlines for program changes from BBA, BBRA, and HIPAA, and the need to be highly responsive to its customers. This initiative was designed to improve HCFA's management of the Medicare program through a continuing reform process by increasing HCFA's flexibility to operate as a prudent purchaser of health care while also increasing accountability. HCFA has evaluated its personnel needs and potential hiring flexibility, developed a long-term human resources strategic plan, increased accountability to constituencies, and implemented structural reforms to improve relationships between HCFA's central and regional offices and HHS. Additionally, the Administration transmitted to the Congress its contracting reform legislative proposal, which is designed to introduce competition into the Medicare contracting environment and allow HCFA to select contractors from a wider pool. Finally, the President's 2001 Budget also included a proposal to fund a contractor oversight initiative to ensure that contractors have appropriate controls in place. This initiative builds on HCFA's successes in guarding program integrity in the Medicare program.

In summary, the Administration has taken important steps to ensure that the Medicare Trust Fund remains viable for coming generations through both legislative and administrative actions. The President has proposed a plan for the future of the program that is progressive and will modernize the program for the 21st Century. These changes are crucial to ensure that upcoming generations receive quality health care.