



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

June 19, 2003
(Senate)

STATEMENT OF ADMINISTRATION POLICY

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

S. 1 - Prescription Drug and Medicare Improvement Act

(Sens. Frist (R) TN, Grassley (R) IA, and Baucus (D) MT)

The Administration supports Senate passage of S.1. This bill is an important first step toward implementing many of the President's principles for strengthening and improving Medicare. The 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 always keep. S. 1 furthers this commitment and is broadly consistent with the President's Framework to Modernize and Improve Medicare.

The Administration is especially pleased with provisions that would create a new Medicare Advantage option that will provide beneficiaries with a prescription drug benefit that is integrated into broader medical coverage. The Administration believes that drug coverage will work best if it is integrated into a comprehensive package of medical benefits, which is easier for beneficiaries to understand and more closely resembles products found in the private market today. This new Medicare Advantage option 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 a new Medicare Advantage program, S. 1 would offer beneficiaries a new, patient-centered choice that is more adaptable to advances in medical services than traditional Medicare. 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. They will offer a patient-centered approach that puts greater emphasis on preventive services and coordination of care for people with chronic medical conditions.

By expanding private sector innovation and competition within Medicare, this new option will provide seniors with quality health care at more reasonable prices. Medicare Advantage 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.

Making this new option available to seniors and people with disabilities is a critical element of the President's framework, and we appreciate the commitment made by Chairman Grassley and Senator Baucus to continue to work with the Administration to assure the viability of this new option. To assure that this new option is both stable and viable, the government contribution to Medicare Advantage plans should be based on market principles. The Administration will work with the Senate to this end.

The Administration supports provisions in the bill that will provide immediate relief for seniors prior to implementation of more comprehensive prescription drug coverage in 2006. This includes the bill's authorization of a Medicare-endorsed prescription drug card and additional assistance for low-income seniors. These provisions will allow seniors to start receiving help with drug costs beginning next year.

Although the Administration has not yet estimated the costs of S. 1, we note that CBO's estimates show that the bill's costs are within the amounts allocated by the budget resolution, \$400 billion over the period 2004-2013. We strongly urge the Senate to stay within the parameters of the budget resolution.

The Administration looks forward to working with Congress to improve S. 1 in several specific ways. The Administration believes that a prescription drug benefit works best when it is incorporated into a comprehensive package of medical benefits. S. 1 would include such benefits in 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. The "fallback" provisions are a government-run delivery system for prescription drugs which could lead to government pricing of individual drugs and government regulation of the availability of certain prescription drugs. We will work with Congress to improve this bill so it does not discourage private entities from bearing the insurance risk for prescription drug coverage.

The new private Medicare plans, called Medicare Advantage, should cover certain existing preventive services without requiring beneficiaries to meet deductibles or to make copayments. The government contribution to the Medicare Advantage plans, or "benchmark," must ensure their viability and represent a competitive bidding process.

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.

Several provisions that would increase the costs of the program and are unrelated to strengthening and improving Medicare are included in S.1, such as expansions of payments to clinical psychologists, demonstrations related to chiropractic care, and increased payments for Medicaid Disproportionate Share Hospitals, among others. These provisions were not included in the President's budget and should be removed.

In addition, the Administration opposes the bill's provisions concerning Medicaid and State Children's Health Insurance Program (SCHIP) coverage for legal immigrants. These provisions contradict current welfare reform policy and should not be undone in Medicare reform legislation. The Administration has proposed substantial new State flexibility as part of Medicaid and SCHIP reform, and coverage for legal immigrants should be examined in that context.

Also, provisions 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.

The Administration looks forward to continuing to work with the 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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