**STATEMENT**

**BEFORE THE**

**UNITED STATES SENATE**

**COMMITTEE ON BUDGET**

**TOMMY G. THOMPSON**

**SECRETARY**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**FEBRUARY 26, 2003**

Good morning Mr. Chairman, Sen. Conrad, and members of the committee. I am honored to be here today to present to you the President's FY 2004 budget for the Department of Health and Human Services (HHS). I am certain you will find that, viewed in its entirety, our budget will help improve the health and safety of our Nation.

The President's FY 2004 budget request continues to support the needs of the American people by strengthening and improving Medicare and Medicaid, enhancing Temporary Assistance for Needy Families (TANF) and Foster Care; strengthening the Child Support Enforcement Program; and furthering the reach of the President's New Freedom Initiative.

The $539 billion proposed by the President for HHS will enable the Department to continue its important work with our partners at the State and local levels and the newly created Department of Homeland Security. Working together, we will hold fast to our commitment to protect our Nation and ensure the health of all Americans. Many of our programs at HHS provide necessary services that contribute to the war on terrorism and provide us a more secure future. In this area, I am particularly focused on preparedness at the local level, ensuring the safety of food products, and research on and development of vaccines and other therapies to counter potential bioterrorist attacks.

Our proposal includes a $37 billion increase over the FY 2003 budget, or about 7.3 percent. The discretionary portion of the HHS budget totals $65 billion in budget authority, which is an increase of $1.6 billion, or about 2.6 percent. HHS' mandatory outlays total $475.9 billion in this budget proposal, an increase of $32.3 billion, or roughly 7.3 percent.

Your committee will set the framework for achieving many of the Administration's most important priorities. I am grateful for the close partnership we have enjoyed in the past, and I anticipate working hand-in-hand with you on an aggressive legislative agenda to advance the health and well being of millions of Americans.

Today, I am pleased to come before you to specifically discuss the President's proposals to strengthen and improve Medicare and to modernize the Medicaid program. A top priority for both the President and me continues to be strengthening and improving these vitally important programs that provide for the health care needs of many of our nation's seniors, low-income individuals and individuals with disabilities. We remain committed to delivering stronger, better Medicare and Medicaid programs to the Americans who rely on them. I look forward to working closely with this Committee and Congress to take meaningful action this year.

**Strengthening and Improving Medicare**

As we are all aware, our Nation's Medicare program needs to be strengthened and improved to fill the gaps in current coverage. We remain steadfastly committed to ensuring that America's seniors and individuals with disabilities can keep their current, traditional Medicare. The President has proposed numerous principles for Medicare enhancements to ensure that we are providing our seniors with the best possible care. The budget builds on those principles by dedicating $400 billion over ten years to strengthen and improve Medicare, including providing access to subsidized prescription drug coverage, better private options and better insurance protection through a modernized fee-for-service program.

Prescription Drug Coverage

Ensuring that Medicare beneficiaries have access to needed prescription drugs is a key priority for the Administration. This budget proposes a prescription drug benefit that would be available to all beneficiaries, protect them against high drug expenditures, and would provide additional assistance through generous subsidies for low-income beneficiaries to ensure ready access to needed drugs. The Administration's prescription drug plan would offer beneficiaries a choice of plans and would support the continuation of the coverage that many beneficiaries currently receive through employer-sponsored and other private health insurance.

Medicare Choices

Medicare+Choice was introduced to provide beneficiaries additional options for Medicare coverage. Over the past year, the Department has made significant strides in expanding beneficiaries' Medicare+Choice options by approving 33 new preferred provider organization through a demonstration. However, due to a variety of factors, in many parts of the country, few other new plans have entered the program.

More needs to be done to encourage plan participation. We believe that we should move away from administered pricing to set Medicare+Choice rates. The Administration believes that Medicare+Choice payments need to be linked to the actual cost of providing care. America's seniors and citizens with disabilities should have access to the same kind of reliable health care options others enjoy and that those choices should be provided through a market-based system in which private plans compete to provide coverage for beneficiaries. Those beneficiaries who select less costly options should be able to keep most of the savings. It is time we give our seniors and citizens with disabilities the choices they have been promised in Medicare.

Modernized Fee-for-Service

One of the basic tenets of our proposal to strengthen and improve Medicare is that seniors and Americans with disabilities deserve the same range of health care delivery choices federal employees enjoy. These choices should reflect the care and service innovations incorporated into today's best health insurance plans. A strengthened and improved Medicare program would rationalize cost-sharing for beneficiaries who need acute care. It would also eliminate cost sharing for preventive benefits and provide catastrophic coverage to protect beneficiaries against the high costs of treating serious illnesses.

Medicare Appeals

Our budget also includes $129 million for strengthening the Medicare appeals process. The adjudicative function currently performed by the Administrative Law Judges at the Social Security Administration would be transferred to the Centers for Medicare and Medicaid Services (CMS). In addition, the Administration proposes several legislative changes to the Medicare appeals process that would give CMS flexibility to improve the appeals system. These changes will enable CMS to respond to beneficiaries and provider appeals in an efficient and effective manner.

**Strengthening and Improving Medicaid**

State Health Care Partnership Allotments

Mr. Chairman, as you know, states are confronting serious challenges in running their Medicaid programs. It is crucial that we do something now to stabilize Medicaid programs so we do not allow millions of Americans to go without health care. Under current law, states have every right to eliminate coverage of optional populations and to drop optional benefits. They are doing so. In the past year, 38 states have reduced services or eligibility and most states are currently considering other benefit or eligibility cutbacks. We want to give states another option. It is our responsibility to work together so that States can get the help they need in managing their health care budgets, while preventing further service and benefit cuts and expanding coverage for low income Americans.

Building on the success of the State Children's Health Insurance Program (SCHIP) and the Health Insurance Flexibility and Accountability (HIFA) demonstrations in increasing coverage while providing flexibility and reducing the administrative burden on States, the Administration proposes optional State Health Care Partnership Allotments to help States preserve coverage. Under this proposal, States would have the option of electing to continue the current Medicaid program or to choose partnership allotments. The allotment option provides States an estimated $12.7 billion in extra funding over seven (7) years over the expected growth rate in the current Medicaid and SCHIP budgets. If a State elects the allotments, the federal portion of SCHIP and Medicaid funding would be combined and states would receive two individual allotments: one for long-term care and one for acute care. States would be required to maintain their current levels of spending on Medicaid and SCHIP, but at a lower rate of increase than the increase of the Federal share.

States electing a partnership allotment would have to continue providing current mandatory services for mandatory populations. For optional populations and optional services, the increased flexibility of these allotments will allow each State to innovatively tailor its provision of health benefit packages for its low-income residents. For example, States could provide premium assistance to help families buy employer-based insurance. States could create innovative service delivery models for special needs populations including persons with HIV/AIDS, the mentally ill, and persons with chronic conditions without having to apply for a waiver. Another important part of the new plan would permit States to encourage the use of home and community based care without needing a waiver, thereby preventing or delaying institutional care. Let me stress that this is an OPTION we are proposing for States.

New Freedom Initiative

One of the Administration's priorities is relying more on home and community based care, rather than institutional care, for the elderly and disabled. The New Freedom initiative represents part of the Administration's effort to make it easier for Americans with disabilities to be more fully integrated into their communities. Under this initiative, we are committed to promoting the use of at-home and community-based care as an alternative to nursing homes.

It has been shown time and again that home care combines cost effective benefits with increased independence and quality of life for recipients. Because of this, we have proposed that the FY 2004 budget support a five-year demonstration called "Money Follows the Individual" Rebalancing Demonstration, in which the Federal Government will fully reimburse States for one year of Medicaid home and community –based services for individuals who move from

institutions into home and community-based care. After this initial year, States will be responsible for matching payments at their usual Medicaid matching rate. The Administration will invest $350 million in FY 2004, and $1.75 billion over 5 years on this important initiative to help seniors and disabled Americans live in the setting that best supports their needs.

The Administration again proposes four demonstration projects as part of the President's New Freedom Initiative. Each promotes home and community-based care as an alternative to institutionalization. Two of the demonstrations are to provide respite services to caregivers of disabled adults and severely disabled children. The third demonstration will offer home and community-based services for children currently residing in psychiatric facilities. The fourth demonstration will test methods to address shortages of community direct care workers.

Medicaid Coverage for Spouses of Disabled Individuals

The Budget proposes to give States the option to extend Medicaid coverage for spouses of disabled individuals who return to work and are themselves eligible for supplemental security benefits. Under current law, individuals with disabilities might be discouraged from returning to work because the income they earn could jeopardize their spouse's Medicaid eligibility. This proposal would extend to the spouse the same Medicaid coverage protection this Committee was instrumental in offering to the disabled worker.

Extension of the QI-1 Program

Under current law, Medicaid programs pay Medicare Part B Premiums for qualifying individuals (QI-1s), who are defined as Medicare beneficiaries with incomes of 120% to 135% of poverty and minimal assets. The Budget would continue this premium assistance for five years.

Transitional Medicaid Assistance (TMA)

TMA provides health coverage for former welfare recipients after they enter the workforce. TMA allows families to remain eligible for Medicaid for up to 12 months after they lose welfare related Medicaid eligibility due to earnings from work, and was scheduled to sunset in September 2002. TMA has been extended through June 30, 2003, through the appropriations process. This budget proposal would extend TMA for five more years, costing $400 million in FY2004, and $2.4 billion over five years. This program is an important factor in establishing independence for former welfare recipients by providing health care they could not otherwise afford.

We are also proposing modifications to TMA provisions to simplify it and make it work better with private insurance. These provisions include:

- States will be given the option to offer 12 months of continuous care to eligible participants.
- States may waive income-reporting requirements for beneficiaries.
- States that have Medicaid eligibility for children and families with incomes up to 185 percent of poverty may waive their TMA program requirements.
- States have the option of offering TMA recipients “Health Coupons” to purchase private health insurance instead of offering traditional Medicaid benefits.

State Children's Health Insurance Program (SCHIP)

As you know, SCHIP was set up with a funding mechanism that required States to spend their allotments within a three-year window after which any unused funds would be redistributed among States that had spent all of their allotted funds. These redistributed funds would be available for one additional year, after which any unused funds would be returned to the Treasury. An estimated $830 million in FY 2000 funds are expected to go back to the Treasury at the end of FY2003. The Administration proposes that States be permitted to spend redistributed FY2000 funds through the end of FY2004. Extending the availability of SCHIP allotments would allow states to continue coverage for children who are currently enrolled and continue expanding coverage through HIFA waivers.

Medicaid Drug Rebate

The current Medicaid Rebate methodology establishes rebates to State Medicaid agencies based in large part on the drug manufacturer's reported best price. The best price component of pharmaceutical rebates requires that the discounts that private sector purchasers are able to negotiate with pharmaceutical manufacturers also be given to Medicaid. It has been claimed that this provides a disincentive for drug manufacturers to give discounts to private sector purchasers. The Administration is interested in working with this Committee, the House Energy and Commerce Committee, and the Senate Finance Committee to explore policy options to address this issue.

**Improving the Health, Well-being and Safety of our Nation**

Mr. Chairman, the budget I bring before you today contains many different elements of a single proposal; what binds these fundamental elements together is the desire to improve the lives of the American people. All of our proposals, from building upon the successes of welfare reform to protecting the nation against bioterrorism; from increasing access to healthcare, to strengthening Medicare and Medicaid; all these proposals are put forward with the simple goal of ensuring a safe and healthy America. I know this is a goal we all share, and with your support, we are committed to achieving it.