

Committee on Ways and Means

New Medicare Law Includes Reforms to Help Control Costs & Improve Solvency

The Medicare Modernization Act signed into law by President Bush included several changes to the program that will help slow the growth of program costs, improve preventive benefits and rationalize payment structures. While more must be done, here is a partial list of key reforms:

Competition

- Exempts drug plans from Medicaid price control (Saves billions).
- Speeds generics to market (Saves \$600 million).
- Requires private plans to compete based on bids, not arbitrary payment formulas.
- Provides plans with an incentive to negotiate aggressively with drug manufacturers on prices because they are at risk for the unsubsidized premium.
- Plans will compete with traditional Medicare in 6 areas starting in 2010 (Saves \$300 million).

Reducing Fraud and Abuse

- Reforms the average wholesale price (AWP) system for drug reimbursement (Saves \$11.5 billion).
- Strengthens the Medicare Secondary Payer law (Saves \$8.9 billion).
- Reforms payments for Durable Medical Equipment (Saves \$6.8 billion).
- Rationalizes payments for inhalation drugs (Saves \$4.2 billion).

Beneficiary Modernizations

- Adds a preventive physical.
- Adds cardiovascular and diabetes screening.
- Adds chronic care disease management program.
- Reduces co-payments and rationalizes payment for diagnostic mammograms.
- Indexes the Part B deductible (Saves \$11.6 billion).
- Income relates the Part B premium subsidy (Saves \$13.3 billion).
- Creates Health Savings Accounts.

Payment Reforms

- Adjusts payments to Ambulatory Surgical Centers (Saves \$3.1 billion).
- Rationalizes payments for clinical lab tests (Saves \$7.8 billion).
- Revises unusually high payments for graduate medical education (Saves \$1.3 billion).
- Limits home health update (Saves \$6.5 billion).
- Ties acute care hospital payment update to quality reporting (Saves \$200 million).

Process Reforms

Expedites legislative review if general revenue funding exceeds 45 percent of program.