



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

August 1, 2007
(House)

STATEMENT OF ADMINISTRATION POLICY

H.R. 3162 – The Children’s Health and Medicare Protection Act of 2007

(Rep. Dingell (D) MI and 9 cosponsors)

The Administration strongly supports the reauthorization of the State Children’s Health Insurance Program (SCHIP). Since SCHIP was created, it has been widely acclaimed for its success in reducing the number of children without health insurance. The Administration is committed to making sure that poor children have health insurance and to that end, supports focusing resources on providing coverage to low-income children. It is urgent that Congress complete its work and send the President a bill he can sign before the program expires September 30, 2007. In fact, the President would sign reasonable legislation to reauthorize SCHIP today. The President’s Budget included a proposed \$5 billion expansion of the program over five years, which translates into a 20 percent increase in funding above the baseline. However, the President has several concerns about H.R. 3162 and the House approach to SCHIP Reauthorization. Accordingly, if H.R. 3162 were presented to the President in its current form, he would veto the bill.

H.R. 3162 is objectionable on several fronts. First, as a general matter, the legislation is structured in a way that clearly favors government-run health care over private health insurance. The result of this approach would be a dramatic encroachment of government-run health care resulting in lower quality and fewer choices, which the American people have repeatedly rejected. Second, the legislation dramatically expands Federal spending far beyond what is necessary to reauthorize SCHIP responsibly. Third, it will result in the elimination of benefits and choices for millions of Medicare beneficiaries including both senior citizens and individuals with disabilities. Fourth, it would weaken scrutiny of Medicare’s unsustainable fiscal path by eliminating a current law provision that informs the American people when Medicare’s financial condition has deteriorated. Fifth, it weakens the ability of States to cover unborn children under their SCHIP programs. Finally, it imposes a massive, regressive tax increase.

When the SCHIP program was enacted in 1997, with bipartisan support, Congress created a fixed allotment to States for the first ten years of the program. H.R. 3162 takes a decidedly different approach. It transforms the program into an effectively unlimited entitlement program that reaches far beyond the targeted population of poor children, and applies growth rates that are both far in excess of health care inflation and the aggressive expansion of programs by States. At a time when the Medicare program has an unfunded 75-year obligation of \$34 trillion, Social Security has an unfunded 75-year obligation of \$7 trillion, and the Medicaid program is consuming an ever-increasing share of Federal resources, it is unwise to expand the government’s unfunded obligations.

The bill dramatically expands SCHIP in several ways. For example, the legislation would permit

States to subsidize coverage for all “children” up to 25 years of age, whether they are a citizen or not. This change opens the door to providing permanent coverage under SCHIP to childless adults, who have traditionally been ineligible for Medicaid or SCHIP. In addition, the Administration is particularly concerned that the absence of strong anti-fraud provisions and the dramatic liberalization of the citizenship documentation requirements would result in unacceptable increases in coverage under SCHIP for individuals who are currently not eligible for the program.

Increases in SCHIP coverage under this legislation will be offset by losses in private health insurance coverage because the proposed SCHIP expansion targets families at income levels where most children already have private health insurance coverage. The true net increase in newly insured children is estimated to be between 40 and 50 percent of the increase in enrollment levels under SCHIP. As a result, the cost per each newly insured individual under the bill could be as high as \$4,850 in 2012 in combined Federal and State spending. H.R. 3162 expands the SCHIP program and encourages States to provide coverage to families with incomes of up to \$83,000 per year or even more. This bill essentially extends a welfare benefit to middleclass households. The funding levels that the bill provides are far more than necessary to accomplish the goal of covering low-income children.

H.R. 3162 also proposes to dramatically reduce payments to Medicare Advantage plans, which nearly 20 percent of Medicare beneficiaries rely on for their Medicare benefits. These payment changes are so draconian that the likely effect will be to eliminate the private Medicare Advantage option in many areas for many beneficiaries – particularly in rural counties or small urban communities where Congress expressly intended to provide choices for beneficiaries. And even where the option remains, the payment cuts will reduce important benefits that beneficiaries currently have access to through Medicare Advantage – such as benefits that fill the gaps in coverage in traditional Medicare, provide \$0 premium drug coverage, and limit their potential out-of-pocket spending. Further, other changes in the bill will significantly reduce the ability of beneficiaries to choose a low-cost plan benefit package that best meets their needs. The legislation prohibits enrollment in Medicare Advantage plans that bid above the benchmark. It mandates a medical loss ratio of at least 85 percent. It overturns the concept of actuarial equivalence by prohibiting differential cost sharing from fee-for-service Medicare. This point is particularly notable, as it would result in Medicare beneficiaries being forced into a one-size-fits-all plan, something that nearly 90 percent of part D enrollees rejected. H.R. 3162 imposes needlessly complicated barriers to employer group retiree coverage. Finally, the legislation opens the door to direct State regulation of the Medicare benefit as provided in Medicare Advantage plans, something that Congress deliberately pre-empted in the Balanced Budget Act and strengthened in the Medicare Prescription Drug, Improvement, and Modernization Act (MMA).

As was evident from the President’s budget, the Administration is committed to strengthening the long-term fiscal integrity of Medicare and Medicaid. The Administration is therefore concerned to see that H.R. 3162 would eliminate the excess general revenue trigger, a fail-safe measure that encourages Congress to act to preserve Medicare for future generations. In addition, H.R. 3162 curtails the Administration’s ability to strengthen Medicare and Medicaid program integrity. Specifically, the Administration would be prohibited from implementing a number of savings policies that would ensure Medicare payments accurately reflect the costs of services and guarantee that appropriate Medicaid services are reaching intended beneficiaries.

The Administration is also concerned about a number of the spending provisions in H.R. 3162. For example, the bill would extend a Medicare provision, intended to be temporary, which would result in payment increases to a small number of select hospitals. The bill also would raise physician payments in 2008 and 2009, while calling for unrealistic reductions in physician payments in 2010 and 2011 that hide the true cost of the bill. The Administration notes that the legislation includes some Medicare savings proposed in the President's budget as offsets. However, these savings were intended to extend Medicare's long-term sustainability for future Medicare beneficiaries and not to be used to increase other spending.

Moreover, according to Congressional Budget Office and Joint Committee on Taxation estimates, the spending and revenue changes proposed under H.R. 3162 as reported by the Committee on Ways and Means would increase Federal deficits by \$72.9 billion over ten years. The Administration believes that this deficit increase should be addressed by eliminating excess spending in the bill, and not by further raising taxes or relying on budget gimmicks.

H.R. 3162 wrongly weakens the current option available to States to cover unborn children and their mothers. The new option would exclude coverage for certain unborn children and their mothers who would be eligible under the existing regulations. The Administration believes every human life has value, and every child should be welcomed into life. Unfortunately, H.R. 3162 seems to depart from that important belief.

H.R. 3162 provides for a two year extension of Transitional Medical Assistance (TMA). This program has recently been extended as part of a package that has included the Title V Abstinence Program. Any two year reauthorization of TMA should include a two year reauthorization of Abstinence.

H.R. 3162 establishes a Comparative Effectiveness Research Trust Fund that is financed by mandatory transfers from Medicare and a new tax on the issuer of private health insurance. The Trust Fund would be used to support comparative effectiveness work conducted by a newly-established Center at HHS. The Administration is concerned about the impact of this funding on the Medicare trust fund and objects to adding a premium tax to the cost of health insurance for all insured Americans.

Finally, Federal revenues relative to the size of the economy are already above their historic average level, and the use of tax increases to fund spending increases is undesirable and inadvisable. Yet that is exactly what H.R. 3162 does. Even worse, it does so by increasing a highly-regressive tax on tobacco, in addition to the tax on health insurance.

This legislation is a wholesale, unapologetic move to government-run health care for large classes of children (including "children" up to 25 years old) and a return to one-size-fits all choices for Medicare beneficiaries. The Committees that drafted this bill have chosen the path of partisanship rather than the bipartisan tradition which marked the initial enactment of SCHIP and the MMA.

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