



**TESTIMONY OF**  
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**CENTERS FOR MEDICARE & MEDICAID SERVICES**  
**ON**  
**THE PRESIDENT'S FISCAL YEAR 2009 BUDGET:**  
**MEDICARE AND MEDICAID**  
**BEFORE**  
**HOUSE WAYS AND MEANS SUBCOMMITTEE ON HEALTH**

**February 14, 2008**



**Testimony of Kerry Weems**  
**Acting Administrator, Centers for Medicare & Medicaid Services**  
**on**  
**The President's Fiscal Year CMS 2009 Budget Request**  
**Before the**  
**House Ways & Means Committee, Subcommittee on Health**

**February 14, 2008, 1:00 p.m.**

Good afternoon Chairman Stark, Representative Camp, and distinguished members of the Subcommittee. I am pleased to be here today to discuss proposals in the President's fiscal year (FY) 2009 budget request related to the programs administered by the Centers for Medicare & Medicaid Services (CMS): Medicare, Medicaid and the State Children's Health Insurance Program (SCHIP).

For the past seven years, this Administration has worked to increase the effectiveness and efficiency of Medicare, Medicaid and SCHIP. Together with Congress, we have made great strides in modernizing and improving health care benefits, but there is more work to be done. The FY 2009 budget request for CMS builds on these past efforts by updating and strengthening our payment systems, beginning to incorporate value-based purchasing strategies, and improving quality and efficiency while restraining costs. The savings proposals identified in the FY 2009 CMS budget request also are integral to the President's goals of controlling entitlement spending and balancing the overall Federal budget by 2012.

While significant savings proposals have been identified in the President's FY 2009 budget request, particularly in the Medicare program, let me be clear about one thing: this budget is not a panacea for the funding problems looming on the horizon. Every member of this Committee knows that spending on Medicare is growing faster than we can afford. As the President noted in his recent *State of the Union* address, painful choices lie ahead for policymakers if entitlement growth is allowed to continue unchecked: massive tax increases, sudden and drastic cuts in benefits, or crippling deficits. Absent reform, these tough choices are coming soon. Indeed, based on the 2007 Trustees Report, in just eleven years from now the Hospital Insurance (HI) Trust Fund

that pays Medicare Part A benefits will no longer be able to pay full benefits. For those of you who think that eleven years is still far off, you should know that we already are on a path leading to exhaustion of the HI trust fund. In 2007, Part A expenditures exceeded dedicated tax revenues by \$4.7 billion. This year, expenditures are projected to exceed dedicated revenues by \$10.6 billion.

### **Medicare Proposals**

For 2008, a projected 44.6 million Americans will be enrolled in the Medicare program. In addition to the benefits of traditional Medicare, the Medicare prescription drug program (Part D) and Medicare Advantage are offering unprecedented choices, expanded benefits, and quality care through competition among private plans.

Current Medicare spending levels threaten benefits and access for current and future beneficiaries. Medicare spending is projected to be 3.3 percent of gross domestic product (GDP) in 2009. Under current law, the 2007 Trustees Report predicts that Medicare spending will grow to 7.3 percent of GDP by 2035, and to 11.3 percent of GDP by 2080. These trends are unsustainable. The FY 2008 budget included proposals to begin to address out-of-control costs, but Congress did not act to curb the spending in 2007. In fact, in some cases, Congress intervened to stop CMS from implementing administrative savings proposals.

It is in this environment that the FY 2009 budget request is presented to the Congress, including significant savings proposals to begin restraining exploding growth. I know these choices are tough and may not be popular; however, I hope we all can agree that major reform of the Medicare program is necessary to preserve its future. We may not agree on what those reforms should be – in fact, I would wager that we do not – but let us at least agree to acknowledge that in the absence of major change, the HI trust fund will no longer be solvent by the time any 54-year-old sitting in this room reaches Medicare eligibility. We need to find a way to come together and act now.

The President's budget request for CMS strives to move providers toward greater efficiency, with strong financial incentives for providers to slow cost growth through improvements in productivity and efficiency. In addition to encouraging appropriate, high-quality care for people with Medicare, the proposals would reduce the growth in premiums for most beneficiaries. Under the proposals in the FY 2009 Budget request, beneficiary premiums will be reduced by \$6.2 billion over five years.

The FY 2009 Budget request includes about \$486 billion in total gross mandatory spending for our Medicare program benefits. When combined with Medicare administrative proposals, the FY 2009 Medicare legislative proposals would produce net savings of \$12.8 billion in FY 2009 and \$182.7 billion over five years. Under this budget, Medicare's average annual growth rate would slow from 7.2 percent to 5 percent over five years. Make no mistake – this level of savings is not enough to shore up Medicare permanently. By extending near-term solvency, however, we do create an opportunity to devise and enact the vital, more permanent reforms that are required.

Towards this end, the budget would:

(1) Improve Quality and Efficiency: For example, the budget proposes to implement a value-based purchasing (VBP) program for Medicare inpatient hospital payments that ties a percentage (5 percent) of a hospital's base payment for each discharge to the hospital's actual performance on a number of measures. Hospitals would be provided an opportunity to achieve bonus payments for either improving performance on a set of measures or achieving a high level of absolute performance.

Another proposal would require hospitals to report any occurrences of "never events," which are unambiguous, usually preventable, serious medical errors. No Medicare payment would be made for services connected to never events. Any hospital failing to report their never events would receive a 2 percentage point annual update reduction.

The budget also includes a regulatory proposal that would look to expand current policies that eliminate higher payments for certain health conditions that were not present at the time of admission to the hospital, so-called hospital acquired conditions.

(2) Align Medicare Payments with Current Costs and Practices: The budget proposes to align payment rates for certain dialysis services in hospital-based and free-standing facilities and implement a new bundled prospective payment methodology for the end-stage renal disease (ESRD) program that would include both dialysis services that are currently paid using a bundled prospective payment and ESRD drug treatment and laboratory costs for which Medicare currently pays separately. An additional legislative proposal would move Medicare toward site-neutral payment systems by establishing a new post-hospital payment rate for five conditions that are commonly treated in both skilled nursing facilities and inpatient rehabilitation facilities.

Another proposal would establish a 13-month rental period for power wheelchairs to ensure that Medicare and its beneficiaries no longer pay excessively for the rental of equipment that could have been purchased. In a similar vein, the rental period for most oxygen equipment would be reduced from 36 to 13 months. This provision will lower Medicare and beneficiary spending.

(3) Increase Responsibility for Health Care Choices: The budget proposes to extend the Part B income-related premium adjustment to the Part D program. This proposal would increase premium amounts for the Medicare drug benefit for high-income Medicare beneficiaries in a manner similar to what is currently applied in the Part B program.

### Medicaid and SCHIP Proposals

Medicaid and SCHIP provide access to affordable health care for vulnerable populations including low-income seniors, individuals with disabilities, and uninsured children. The President's FY 2009 budget request makes a number of proposals to

preserve and strengthen the Medicaid program, building on past efforts to create service efficiencies and to assure its fiscal integrity.

The FY 2009 budget also includes a proposal to re-focus SCHIP on uninsured, targeted, low-income children and to reauthorize the program responsibly. The proposal would increase funding to states by \$19.7 billion through FY 2013, with \$450 million in outreach grants. With this SCHIP reauthorization proposal, we are re-affirming our commitment to covering low-income uninsured children and promoting a fiscally responsible SCHIP program that will be available for the children who need it the most.

### **Conclusion**

The President's FY 2009 budget demonstrates a commitment to improving America's health care system by strengthening Medicare's financial outlook; reauthorizing and sustaining health care coverage for low-income and vulnerable populations; and taking steps to make health care more affordable and accessible for all. This is a critical time in the life of Medicare and Medicaid. Steps taken now – or not taken – to adopt rational, responsible, and sustainable policies will directly impact our ability to preserve the promise of health care coverage for America's seniors, people with disabilities, and low-income, vulnerable populations. We look forward to working with Congress in the coming year to reauthorize SCHIP, strengthen our existing programs, and improve access to affordable health insurance for all Americans.