



Legislative Bulletin.....June 27, 2002

Contents:

H.R. 4954—Medicare Modernization and Prescription Drug Act of 2002

**H.R. 4954 — Medicare Modernization and Prescription Drug Act of 2002
(Nancy Johnson)**

Order of Business: The bill is scheduled to be considered on Thursday, June 27th, under a closed rule. In lieu of the bill reported by the Ways and Means Committee, an amendment in the nature of a substitute shall be considered as adopted.

Summary: The major provisions of H.R. 4954 are as follows:

Hospitals:

Under current law, hospitals will receive an inflation update of Market Basket minus .55 for FY 2003. After 2003, hospitals would receive full Market Basket.

Under H.R. 4954:

- Hospitals will receive an inflation update of Market Basket minus .25 for FY 2003 and no reductions in future years.

Estimated Cost: \$3.6 billion over 10 years

Skilled Nursing Facilities:

Under current law, nursing homes face a \$3 billion reduction in Medicare payments for FY 2003 because of three expiring provisions.

Under H.R. 4954:

- Increases prospective payments for nursing facilities 12% for 2003, 10% for 2004 and 8% for 2005.

Estimated Cost: \$1.6-2 billion over 10 years

Home Health:

Current law calls for a 15 percent reduction in home health payments effective October 1, 2002.

Under H.R. 4954:

- Eliminates the 15 percent payment reduction.
- Reduces future payment updates for home health agencies.
- The home health copay included in the Ways and Means version of H.R. 4954 is not included.

Estimated Cost: Savings \$50 million over 10 years (although cost of \$400 million over 5 years)

Rural Health:

Under H.R. 4954:

- Sole Community Hospitals and small hospitals in urban or rural areas will receive full market basket update for 2003.
- The standardized amount for rural and suburban hospitals will be increased in FY 2003 and will be brought to full parity with large urban hospitals in FY2004.
- Ten percent home health bonus payment
- Five percent bonus payment for three years for certain rural and urban hospitals with low inpatient margins

Estimated Cost: \$9.9 billion over 10 years

Medicare + Choice:

H.R. 4954:

- Revises the current "blend" formula and creates a reimbursement method based on the higher of either the adjusted average per capita cost (based on a formula dividing the cost of health care by the number of Medicare beneficiaries in a given county) or 100 percent of Fee For Service.
- Creates a two-year, four site demonstration program for full Fee for Service and M+C competition. Sites would have to have at least two M+C plans in the area and 50 percent of seniors enrolled in a M+C plan.
- Provides incentives for Medicare beneficiaries to choose Medicare + Choice plans over Fee For Service by allowing a beneficiary to keep 75 percent of the savings generated by switching plans.
- Allows a M+C plan to apply for a statewide payment area instead of a county-based payment system.

Estimated Cost: \$3 billion over 10 years

Physicians:

Under H.R. 4954:

- Receive payment increase of 2 percent in 2003 and payment updates in 2004 and 2005 based on 2002 data.

Estimated Cost: \$11.5 billion over 10 years (*note: payments would be decreased in 2008. The five-year cost of this provision is \$21.3 billion*)

Total estimated cost of provider/M+C givebacks – \$34.5 billion over 10 years

Other Provisions:

- Competitive bidding for Durable Medical Equipment and off-the-shelf orthotics (estimated savings of \$7.7 billion over 10 years)
- Provides new coverage under Medicare for initial physical exams and cholesterol screening (estimated cost of \$1.3-\$1.6 billion over 10 years)
- \$2 billion increase in Medicaid Disproportionate Share Hospital (DSH) payments
- Electronic prescribing of drugs
- Two-year extension of moratorium on outpatient therapy caps
- Regulatory relief package
- Permanently extends Medicare MSAs and removes enrollment caps

Drug Benefit (begins in 2005):

- \$250 annual deductible
 - \$33 monthly premium
 - Drug costs of \$251-\$1000 - 80 percent government, 20 percent beneficiary
 - Drug costs of \$1001-\$2000 - 50 percent government, 50 percent beneficiary
 - Drug costs of \$2001-\$3700 - 100 percent beneficiary with ability to purchase drugs at about a 30 percent discount
 - Drug costs \$3701 and up - 100 percent government
 - Full subsidies for low-income seniors at or below 150 percent of poverty, phased out to 175 percent of poverty.
 - \$3 billion Transitional Low Income Assistance Program
 - Federal contribution to employers of 67 cents on the dollar for the premium of each covered Medicare beneficiary when the plan provides the standard drug benefit package as described above.
 - Prescription drug plans (PDPs) must form a pharmacy network of at least 2 pharmacies but must also have a point of service option that allows beneficiaries to go to pharmacies outside the network. PDPs may charge a copay or higher premium for the point of service option. A PDP must also issue a card to beneficiaries to assure access to negotiated prices for prescription drugs and have a cost and drug utilization management program, which may include incentives for the use of generic drugs.
 - Establishes Medicare Prescription Drug Trust Fund.
 - Establishes Medicare Benefits Administration to oversee drug benefit and Medicare + Choice program.
 - Requires a GAO study of the effectiveness of the drug program by January 1, 2006.
- Estimated Cost: \$311 billion over ten years, broken down as follows:
- \$301 billion in payments to plans offering drug coverage
 - \$95 billion for low-income subsidies and assistance
 - Savings of \$96 billion through program replacing or supplementing current drug coverage through other federal programs
 - \$11 billion due to increased enrollment of Medicare enrollees in Medicaid

Cost to Taxpayers: CBO estimated the total cost of H.R. 4954 as reported by the Ways and Means Committee as \$341 billion over 10 years. However, changes in the bill as amended by the Rules Committee will adjust the cost slightly. For the previous CBO estimates of the cost of specific provisions, see the summary above.

Note: According to CBO, the prescription drug proposal of House Democrats would cost an additional \$666.7 over the cost of H.R. 4954, for a total of about \$1 trillion.

Does the Bill Create New Federal Programs or Rules?: Yes. The bill establishes a new prescription drug entitlement under the Medicare program.

Constitutional Authority: No committee report citing constitutional authority is available.

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