EXECUTIVE COMMITTEE MEETING TO MARK UP THE MEDICARE SUBVENTION DEMONSTRATION FOR VETERANS ACT OF 1999

THURSDAY, JUNE 24, 1999

U.S. Senate,

Committee on Finance,

Washington, DC.

Gilmour

22 pp.

The meeting was convened, pursuant to notice, at 10:12 a.m., in room SD-215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (Chairman of the Committee) presiding.

Also present: Senators Grassley, Nickles, Jeffords, Mack, Moynihan, Rockefeller, Breaux, Conrad, Graham, Bryan, Kerrey, and Robb.

Also present: Franklin G. Polk, Staff Director and Chief Counsel; Mark A. Patterson, Minority Staff Director and Chief Counsel.

Also present: Tom Bradley, Congressional Budget Office; Monica Tencate, Professional Staff Member, Committee on Finance.

Apr. S. 915 - H.R. S. 1547

OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON FINANCE

The Chairman. The committee will please be in order.

We are here today to mark up a very important bill, the Medicare Subvention Demonstration for Veterans Act of 1999. This is a much-anticipated event for the Finance Committee, as subvention legislation for veterans has been in progress for many years.

I would like to especially thank Senators Moynihan, Jeffords, Rockefeller, and Specter for their dedication and commitment to this effort.

After many months of hard work and negotiation, I am pleased that this bill has finally come to fruition. Maintaining access to quality health care for our veterans is, indeed, of tremendous importance.

Today, due to VA cutbacks, certain veterans are increasingly being denied access to VA health care. These veterans, known as Priority 7 veterans, do not meet specific income thresholds or have service-connected disabilities that qualify them for priority care in the VA health care system.

Many of these same veterans, approximately 4 million, are also eligible for Medicare. The Medicare

Demonstration for Veterans Act of 1999 would allow these Medicare-eligible veterans to utilize their Medicare benefits and receive Medicare-covered services through the VA health care system.

The Secretary of Veterans Affairs is reimbursed by the Secretary of Health and Human Services for the care these veterans receive, and this substantially improves veterans' access to the VA health system.

In addition, the demonstration provides an opportunity to examine whether use of the VA hospital and providers can save Medicare money. I am pleased to announce the one-year extension of the Medicare Subvention Demonstration for military retirees is included in this bill. Hopefully we can work together to get this bill passed, and I strongly encourage the committee to move this bill without amendment.

Senator Moynihan?

OPENING STATEMENT OF THE HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK

Senator Moynihan. Thank you, indeed, Mr. Chairman. This is a useful legislation. It should not become complicated, and I hope it does not. The term subvention is defined as a grant of money in aid or support of some institution or undertaking.

It is entirely reasonable that veterans who have medical care coverage should be able to use it in a VA hospital. It is baffling to me why this would cost money, but the CBO decrees it does. How do you wish to proceed, sir?

The Chairman. Well, I thought we would have Monica give a very brief walk-through, first.

Senator Moynihan. Yes. Sure.

The Chairman. And then we would ask if there are any amendments.

Ms. Tencate. Thank you, Mr. Chairman.

The Chairman's mark authorizes the Secretary of the Department of Health and Human Services and the Department of Veterans Affairs to establish a three-year demonstration at eight sites nationwide where the VA can receive Medicare reimbursement.

The proposal allows for the establishment of two

different models of health care delivery, a coordinated care model following Medicare+Choice rules, and a fee-for-service model. Total spending for this demonstration is $50 million per year.

In addition, the Chairman's mark would extend the duration of the current Medicare Subvention Demonstration for military retirees until December 31, 2001. The Chairman's mark would also provide authority to include a fee-for-service model at one or more of the existing demonstration sites, should the Secretaries choose to do so. Thank you.

The Chairman. Are there any amendments?

Senator Rockefeller. Mr. Chairman, I do not have an amendment. I just want to thank you for allowing this to happen, this whole bill.

The Chairman. Very good.

Senator Rockefeller. And our Ranking Member, of course.

Senator Moynihan. I believe Senator Kerrey has an amendment.

Senator Kerrey. Mr. Chairman?

The Chairman. Senator Kerrey.

Senator Kerrey. Mr. Chairman, first of all, I fully support this legislation. Is it one of these where veterans are constantly asking me, why can this not be

done? I appreciate very much your marking this up and your leadership in making certain that it happens.

I do want to make a couple of points, however. One, is that this cannot be seen as a replacement for a sufficient appropriation for veterans hospitals. I fear that we are not going to appropriate a sufficient amount, and I know Senator Rockefeller has expressed a great deal of concern in the past. Those hospitals will not be able to operate unless we find a sufficient amount of appropriated resources to fund them.

So, I appreciate very much what this does, because I think it does help. It helps a great deal to allow a veteran with Medicare to go to a VA hospital and have those resources flow there.

Like Senator Moynihan, I, for the life of me, do not understand why there is a cost attached to this. I do not understand why this necessitates an offset. I do intend to offer an amendment that would provide a different offset than the one the Chairman has provided.

We have heard many providers. Indeed, we had a hearing in this committee about the problems that were caused by the BBA 1997 action. I support BBA 1997. I believed it was necessary to find savings in Medicare.

I voted for something that I thought would produce $105 billion or so net savings that now appears to have

produced at least twice that much. So we are reducing the amount of money we are spending on our providers by at least twice as much as I thought I was voting for in 1997.

I believe this offset goes after the most vulnerable, the hospitals that serve individuals whose income is not low enough to be dual-eligible and receive payment for their co-payments and deductibles under Medicaid, but still low enough that they are not able to buy Medigap insurance and, thus, they produce bad debts.

Medicare already, under BBA, is paying 55 percent of total hospital bad debt related to Medicare beneficiaries. They are already struggling as a consequence of serving these individuals.

Again, I appreciate very much that the Chairman has to look around for an offset that I do not think even he thinks is warranted. We all scratch our head and wonder from time to time when we get a mark back from CBO that says that your proposal is going to cost more than we think it is going to cost.

So I will, at the appropriate time, offer a substitute to the Chairman's offset, because I do think using a bad debt offset will exacerbate conditions that are already pretty serious in hospitals, both in the inner city and in many rural areas, where incomes, as I

said, sort of in that never-never land in between being dual-eligible or qualifying for QUIMBie, SLIMbie, and the level necessary to enable the beneficiaries to purchase Medigap, which would then cover the co-payment and deductible.

Senator Mack. Mr. Chairman?

The Chairman. Senator Mack?

Senator Mack. Mr. Chairman, I, too, appreciate the work and effort that has gone into this. This is not the first time we have addressed this issue. But I must say, I am troubled by the offset. I am troubled by the scoring; it does not make any sense to me, either.

But I just think, after the series of hearings that we have had listening to the effect of BBA, to then say we are going to make further reductions when, in fact, there are discussions on this committee about maybe adding money back, this offset makes no sense to me.

I will be waiting to see what Senator Kerrey has to offer with respect to a substitute for that offset and make a determination about whether to support the bill based on that offset. But I am very troubled by the offset.

Senator Jeffords. Mr. Chairman?

The Chairman. Yes, Senator Jeffords?

Senator Jeffords. First of all, I want to thank you

for bringing the bill up, and ask that my full statement be made a part of the record.

[The prepared statement of Senator Jeffords appears in the appendix.]

Senator Jeffords. It seems to me that, having dealt with these problems, as you have, on offsets, that the rule does require an offset, and I think that is quite appropriate. But what the final offset is, is rarely the one that is utilized in the moment. This one is almost an asterisk.

I would hate to see us lose the opportunity to pass the bill because of an almost non-existent offset. As always, we can look around at the appropriate time to find one which is more agreeable in conference. So I would hope that perhaps we would just move the bill out, and then take up the offset later.

Senator Moynihan. That is a fair idea.

The Chairman. Well, I would be very amenable to that suggestion. In fact, I wanted to assure the distinguished Ranking Member that we would work with him in trying to find a reasonable offset. But, in the meantime, I have to say, it is a very tiny cost. It is so small, you can barely see it. But, nevertheless, it is there.

I would call on Mr. Bradley from CBO to make any

comment he might care to make.

Mr. Bradley. Good morning. The primary mechanism by which this proposal would increase Medicare spending is erosion of VA's level of effort. There is an inherent tension between VA's mission and satisfaction of the maintenance of effort requirement.

There is also an inability to develop a measure of effort during the base period that is reliable, and there is lack of an effective mechanism to monitor and enforce compliance with the maintenance of effort requirement.

Despite the impediments to maintaining effort, CBO assumes that VA will, in fact, allocate substantial resources to maintaining its level of effort.

VA does not have sufficient resources to satisfy the health care demands of all eligible veterans. To carry out its mission with in the resources available, Congress and the VA have established seven priority groups to specify the order in which veterans may stake a claim to VA health services.

The VA also allocates care by determining which services it will offer, where it offers them, and the quantity it offers. Only by managing the set of services that VA provides and by managing the distribution of those services across the veteran population can VA best serve the needs of American veterans within the

constraints imposed by its limited resources.

The VA provides a full spectrum of medical care. However, some veterans have medical needs that are not well served by community providers. To satisfy these needs, the VA has developed special expertise in certain areas, including the provision of low-cost pharmaceuticals, and for patients with chronic disabilities, rehabilitation, and substance abuse, and mental health services. In general, those services in which VA has developed special expertise are not covered by Medicare.

One method by which VA intends to carry out its mission is by allocating more resources to those services in which it has special expertise. If the proposal did not require that VA maintain a level of effort out of non-Medicare funds, Medicare payments for Medicare-covered services would enable VA to redistribute some of the appropriated funds to provide more of the services in which it has special expertise. Medicare spending would increase as Medicare pays VA or community providers for the Medicare-covered services that would no longer be funded out of the VA appropriations.

By contrast, implementation of an effective mechanism to enforce the maintenance of a level of effort out of non-Medicare funds would require that VA shift resources

away from the services in which it has special expertise, in order to pay for providing additional Medicare-covered services to Medicare-eligible veterans.

Because of this resulting tension between carrying out VA's mission and satisfaction of the maintenance of effort requirement, CBO believes it is unlikely that a fully effective maintenance of effort mechanism could be implemented.

Senator Kerrey. Is the time appropriate to either offer or explain the amendment that I would propose as an offset?

The Chairman. The time is here.

Senator Kerrey. Mr. Chairman, on June 22, 1999 we considered the African Growth and Opportunity Act, and included in that proposal was the offset that, at that time, was not controversial, that I would propose as an alternative.

Basically, what it does, is it limits businesses' use of the accrual method of accounting. It limits it basically to companies that provide personal services, health, legal, and other accounting and personal services.

There are many people that propose that we eliminate this methodology altogether. By methodology, I mean, it deals with receivables. If I am a business and I have

receivables coming in, I can either account for them as cash receivables or I can accrue them.

Under current tax law, the accrual method allows me to say, Senator Moynihan owes me $100,000, but he is not going to pay the $100,000, so I write it off. I take it as an expense in 1999, and then in 2000, Senator Moynihan pays me the $100,000 and I have essentially deferred my taxes into a year that I think my liability may be lower anyway. It is a tax-deferral strategy, in some cases.

There have been studies and an examination of this that show abuse, and recommendations, as I said, to eliminate it. This merely limits it. It is precisely the same offset that was in the African Growth and Opportunity Act that this committee took up on the 22nd of June. It is a proposal, it seems to me, that is quite reasonable. it is an offset that does not have an impact upon our providers.

I would just underscore it. In 1997, I remember when we were trying to figure out how it was we were going to balance the budget, to go that last mile to finally get the budget balanced. The question was, how do we extend the solvency of Medicare? We had all kinds of people come in before this committee, recognizing that we had a problem.

But, at the end of the day, we knew that we could not

ask the beneficiaries to give up any more, whether there was paying more or taking less, and we basically said, the only group out there that we think we can get money from without suffering any political damage was the providers, so we voted--and I voted--to take a little over $100 billion net over a 5-year period. It now appears that I have voted not to take $100 billion out, but maybe $200 billion out.

Mr. Chairman, again, I know that you do not like this offset any more than I do and are looking for some way to do it. Mr. Bradley, I have great respect for you as well, although you and I do not know each other. I just use that line affectionately all the time.

But your explanation did not persuade me. You have got your job and I have got mine, and I know that you are doing it to the best of your ability. This is a very frustrating thing that we are going through right now, and I would just offer that, if the committee does not like this offset, which we have had before, I think we ought to look for an offset that does not take more money out of providers.

Senator Moynihan. Would the Senator yield just for a comment?

Senator Kerrey. Sure.

Senator Moynihan. Mr. Chairman, it is the case that

the Treasury Department would very much support your proposal. The Treasury Department is on record against this mode of accounting, for general purposes, and I believe they would welcome this measure.

Senator Kerrey. I presume that helps our argument. [Laughter].

The Chairman. Senator Jeffords, please.

Senator Jeffords. Well, I understand the arguments, but I still would oppose the amendment. I think that this should be left as something we do before it goes to the floor, or whatever.

I think, as just pointed out, we have already used that offset for the Africa trade bill provision, which I also sponsored. So I do not want to see both of mine covered by the same ones, but that is not that important, I guess. But it seems to me that we ought to move it out and get that taken care of before we go to the floor.

Senator Moynihan. Could I ask, Mr. Chairman, is the Senator from Vermont's proposal that we do not pay for the measure, we wait until we are in conference and work something out?

Senator Jeffords. No. I think to use the same offset in there that we have now, we know it is not going to be the one used. I understand that. But I do not say I agree with the offset, either. I also know that,

having dealt with these matters on a limited basis, that we usually end up with an offset somewhere along the way that everybody can agree upon, even though the one we start out with is hardly ever the one that finally gets there.

Senator Kerrey. If I could respond, too, Senator. This committee has many precedents where we have used the same offset several times. The reason is that it is perfectly legitimate to do so, is the question is whether or not an offset that we used on previous legislation is used in legislation that has any expectation of passing.

I do not think there is any question that this legislation is going to pass, it going to become law, whereas there is considerable doubt about the African Growth and Opportunity Act, though I supported that as well. I do not disagree with what you are proposing, if there is some way to find out, either before we get to conference on the floor or before this thing becomes law.

I am just saying that I think we need to search for an offset, and I believe the Chairman will probably oppose this amendment, but I think he does agree, in general, that, A) the need for an offset seems unusual, and B) that we ought to try to find some offset that does not make the provider problem that we have already heard with BBA 1997 even worse.

Senator Mack. Mr. Chairman?

The Chairman. Yes, Senator Mack?

Senator Mack. A technical question, I guess. If this amendment were to pass, would this become a revenue bill then?

The Chairman. That is correct. And it would be blue-slipped.

Senator Mack. What would happen then?

The Chairman. Well, that would kill the bill.

Let me say that I am very anxious to see this legislation move ahead. I think we all are. As I have informally advised the Ranking Member and others, it would be my intent to find a substitute measure or offset to pay for it.

But what we have proposed here would be blue-slipped on the House side if it were sent over there. Let me say, I fear very much that the adoption of this amendment would jeopardize Senate consideration of this bill. That was a lesson Senator Jeffords, and Senator Kennedy, Senator Rockefeller, and myself learned on S. 331, on disability.

So I would hope that either my distinguished friend and colleague from Nebraska would withdraw the amendment, or it would be defeated. I do want to assure that I am happy to try to find another offset and, work with

Senator Moynihan in doing so.

I would point out that this is such a small matter. What is it, 26 of 10,000? I do not know how you even say that, to be honest. But we, I am confident, can find some means of working it out. I am anxious to move the legislation ahead because it is important to the veterans. I would like to see early action.

Senator Moynihan?

Senator Moynihan. Senator Robb, sir.

The Chairman. Senator Robb, please.

Senator Robb. Thank you, Mr. Chairman. Let me just say that I share the Chairman's desire to see this move ahead as expeditiously as possible and to find an appropriate offset for it.

I have not attempted to compare the merits of the Chairman's offset with the offset proposed by my distinguished friend from Nebraska, but I think that anything that lessened the likelihood that this legislation would proceed would, in my judgment, be a step in the wrong direction.

This subvention program is very important to our veterans in the efficient delivery of health care and the maximum utilization of the health care facilities that are available, and for a whole lot of other reasons.

I would hope that, whatever resolution we come to on

this question, that the committee indicate its intention to work through those difficulties to make sure that we do get the legislation enacted. I think it is critically important.

The Chairman. I would suggest we move ahead with the vote, unless the distinguished Senator is willing to withdraw it.

Senator Kerrey. What is the question?

The Chairman. Well, I would hope you would withdraw the amendment, otherwise I suggest we go ahead and vote.

Senator Kerrey. Let us go ahead and vote. Mr. Chairman, I request the yeas and nays.

The Chairman. Yeas and nays. The Clerk will call the roll.

The Clerk. Mr. Chafee?

The Chairman. No, by proxy.

The Clerk. Mr. Grassley?

The Chairman. No, by proxy.

The Clerk. Mr. Hatch?

The Chairman. No, by proxy.

The Clerk. Mr. Murkowski?

The Chairman. No, by proxy.

The Clerk. Mr. Nickles?

Senator Nickles. No.

The Clerk. Mr. Gramm, of Texas?

The Chairman. No, by proxy.
The Clerk. Mr. Lott?
The Chairman. No, by proxy.
The Clerk. Mr. Jeffords?
Senator Jeffords. No.
The Clerk. Mr. Mack?
Senator Mack. No.
The Clerk. Mr. Thompson?
The Chairman. No, by proxy.
The Clerk. Mr. Moynihan?
Senator Moynihan. Aye.
The Clerk. Mr. Baucus?
Senator Moynihan. Aye, by proxy.
The Clerk. Mr. Rockefeller?
Senator Rockefeller. Aye.
The Clerk. Mr. Breaux?
Senator Breaux. Aye.
The Clerk. Mr. Conrad?
Senator Conrad. Aye.
The Clerk. Mr. Graham, of Florida?
Senator Graham. Aye.
The Clerk. Mr. Bryan?
Senator Bryan. Aye.
The Clerk. Mr. Kerrey?
Senator Kerrey. Aye.

The Clerk. Mr. Robb?

Senator Robb. Aye.

The Clerk. Mr. Chairman?

The Chairman. No.

The Clerk. Mr. Chairman, the votes are 9 yes, 11 no.

The Chairman. The amendment is not agreed to, but we will work, as I said, with you.

Senator Moynihan. Mr. Chairman, that was very gracious of you. I think we will use our best wits. The CBO might help come up with a number. [Laughter].

The Chairman. That is a very good suggestion. I echo it.

I would now move to report favorably the Chairman's mark of the Medicare Subvention Demonstration Act, as modified, to the Senate, with the understanding that committee staff be permitted to make any technical corrections that may be necessary.

All those in favor, say aye.

[Chorus of ayes]

The Chairman. All those opposed, say nay.

Senator Jeffords. Nay.

The Chairman. The ayes have it. The bill is ordered favorably reported.

Senator Rockefeller. Mr. Chairman, I would just

very much hope, when Senator Kerrey said he thought he was voting for $100 billion and it turned out to be $200 billion, I spent an awful lot of time in the last two months sitting down with hospitals, home health agencies, and the rest of it, actually going over spread sheets, and they are getting killed. I would hope that CBO would be inventive and creative in areas other than BBA.

The Chairman. Well, as someone said the other day, one year we give them more money, the next year we take the money away. That was Senator Breaux.

Thank you, again.

Senator Moynihan. Thank you, Mr. Chairman.

The Chairman. The committee is in recess.

[Whereupon, at 10:38 a.m., the meeting was concluded.]

UNITED STATES SENATE
COMMITTEE ON FINANCE

Thursday, June 24, 1999 -- 10:00 a.m.
SD-215 Dirksen Senate Office Building

OPEN EXECUTIVE SESSION
AGENDA

I. Chairman's Mark of The Medicare Subvention Demonstration for Veterans Act.

The Chairman will rule out of order nongermane items (offered as a single amendment or as part of a larger amendment). Additionally, all amendments must be revenue neutral

STATEMENT OF SENATOR CHARLES E. GRASSLEY

AT A MEETING OF THE COMMITTEE ON FINANCE TO

CONSIDER THE MEDICARE SUBVENTION DEMONSTRATION

FOR VETERANS ACT OF 1999

MR. CHAIRMAN, I THANK YOU FOR BRINGING THIS BILL BEFORE THE COMMITTEE AS QUICKLY AS YOU HAVE. AND I THANK YOU AND YOUR STAFF FOR WORKING WITH OTHER MEMBERS OF THE COMMITTEE TO RESOLVE THE OUTSTANDING ISSUES SO WE HAVE A BILL WHICH I THINK WILL BE OVERWHELMINGLY APPROVED BY A BILL WHICH WILL BE ACCEPTED BY THE COMMITTEE. I THINK THANKS SHOULD ALSO GO TO SENATORS JEFFORDS AND ROCKEFELLER, WHO HAVE BEEN STRONG SUPPORTERS OF MEDICARE SUBVENTION BOTH FOR MILITARY RETIREES AND FOR VETERANS.

MEDICARE SUBVENTION FOR THE DEPARTMENT OF VETERANS AFFFAIRS IS SOMETHING THAT VETERANS IN MY STATE HAVE BEEN CALLING FOR SOME TIME. AS YOU KNOW, IOWA HAS A HIGH PROPORTION OF OLDER CITIZENS, AND MANY OLDER VETERANS. MOST OF THESE OLDER VETERANS ARE ELIGIBLE FOR MEDICARE.

WE ALSO HAVE THREE VETERANS MEDICAL CENTERS IN IOWA WHICH FOR MANY YEARS HAVE PROVIDED OUTSTANDING SERVICE TO IOWA'S VETERANS. OUR MEDICAL CENTERS ARE EXPERIENCING BUDGET CONSTRAINTS BECAUSE FUNDS ARE SHIFTING AWAY FROM THE V.A. NETWORK 14 OF WHICH THESE FACILITIES ARE A PART. FROM 1996 TO 1999, NETWORK 14 HAS EXPERIENCED A 2.6 PERCENT REDUCTION IN ALLOCATIONS FROM THE DEPARTMENT OF VETERANS AFFAIRS. THERE ARE CONSTANT RUMORS AND FEARS THAT ONE OR MORE OF OUR FACILITIES WILL BE CLOSED BECAUSE OF FUNDING SHORTFALLS.

IF THESE DEMONSTRATIONS PROVE SUCCESSFUL AND A MEDICARE SUBVENTION PROGRAM IS MADE PERMANENT, BOTH OUR VETERANS AND OUR VETERANS MEDICAL FACILITIES WOULD BENEFIT.

THE VETERANS WOULD BENEFIT BECAUSE, AS MANY OF THEM TELL ME, THEY PREFER TO GO TO V.A. MEDICAL CENTERS, BUT MAY NOT BE ACCEPTED AT THOSE CENTERS BECAUSE THEY ARE IN THE LOWEST SERVICE PRIORITY CLASS.

THE MEDICAL FACILITIES WOULD FINANCIALLY BENEFIT, OBVIOUSLY, BECAUSE THEY WOULD RECEIVE ANOTHER SOURCE OF FINANCIAL SUPPORT.

THAT SUPPORT WOULD HELP THOSE FACILITIES TO CONTINUE THE GOOD WORK THEY DO NOW.

IT IS EVEN POSSIBLE THAT A SUBVENTION PROGRAM WOULD SAVE MONEY FOR THE VA, IF, AS MANY VETERANS BELIEVE, THE VETERANS MEDICAL CENTERS CAN PROVIDE SERVICES CHEAPER THAN COMMUNITY HOSPITALS. IF VETERANS WHO ARE NOW RECEIVING SERVICES THROUGH COMMUNITY PROVIDERS WERE TO GET THOSE SERVICES MORE CHEAPLY AT VETERANS MEDICAL CENTERS, THE MEDICARE PROGRAM WOULD OBVIOUSLY BENEFIT.

I BELIEVE THAT YOUR DECISION TO INCLUDE A FEE-FOR-SERVICE COMPONENT IN THE DEMONSTRATION PROJECT, IN ADDITION TO A COORDINATED CARE COMPONENT, IS THE RIGHT THING TO DO. I UNDERSTAND THAT THE V.A. MAY HAVE SOME DIFFICULTY IN SETTING UP AND MANAGING A FEE-FOR-SERVICE COMPONENT. NEVERTHELESS, A FEE-FOR-SERVICE OPTION IS PROBABLY GOING TO BE GOOD FOR RURAL AREAS, WHERE VETERANS MAY HAVE DIFFICULTY TRAVELING LONG DISTANCES TO THE NEAREST VETERANS MEDICAL CENTER. WE WILL HAVE TO HAVE PATIENCE AND PROVIDE WHATEVER HELP WE CAN TO THE DEPARTMENT SO THAT THE FEE-FOR-SERVICE DEMONSTRATION SUCCEEDS.

I AM ALSO PLEASED THAT YOUR BILL WILL REQUIRE ONE DEMONSTRATION SITE FOR EACH MODEL, FEE-FOR-SERVICE AND COORDINATED CARE, TO BE SITUATED IN A RURAL AREA. IT MAY BE IN THE RURAL AREAS OF OUR STATES, WITH NO CLOSE-BY VETERANS MEDICAL FACILITY, THAT THE FEE-FOR-SERVICE COMPONENT OF THE PROGRAM IS MOST IMPORTANT.

WITH THAT, MR. CHAIRMAN, I LOOK FORWARD TO VOTING FOR YOUR BILL.

Statement by Senator James M. Jeffords
Committee on Finance
Mark-Up of Medicare Subvention for Veterans legislation
June 24, 1999

Mr. Chairman:

Thank you for this mark-up today of what originated as my legislation, the Veterans Equal Access to Medicare Act, commonly known as Medicare Subvention for veterans. I appreciate the good work of your staff in preparing this legislation for mark-up and I hope that we can move this bill expeditiously to the Senate floor.

As a veteran myself, I believe Medicare subvention is an important tool for the VA as it endeavors to maintain high quality health care services for veterans in the face of inadequate budgets over the last few years. Veterans want the option of receiving their Medicare-covered health care services at their local VA hospital. Veterans groups have been vocal in their demand for subvention for many years. The Veterans Administration wants the option of providing Medicare services to eligible veterans. I believe the VA would do so effectively and efficiently, and it believes that veterans will choose the VA over other options. I believe that this legislation will also benefit the Medicare Trust fund. The VA has agreed to accept reimbursement at 95 percent of

normal reimbursement rates, thus saving the Trust Fund money. And last but not least, the US Senate wants this legislation. My bill, S. 445, has 27 cosponsors. And on February 24, all 100 Senators voted to add it as an amendment to S.4, the Military Bill of Rights. I am anxious to see this bill come to the floor for what I hope will be a similar outpouring of support.

Mr. Chairman, the US Government has invested a lot in the VA health care system, making it a system we can be proud of and one that veterans can rely on to fulfill the promises made to them. But we continue ask the system to do more with less. VA health care budgets have been woefully inadequate over the last few years, and I am very worried that this coming year will be no exception. I am fighting as hard as I can to change this, but we must also look for creative new ways of improving the ability of the VA to serve veterans. Medicare Subvention is a win-win. Veterans want it. The VA believes it can strengthen the VA system, and in the long run, it should save money for the Medicare Trust Fund.

I thank the Chairman and I urge speedy adoption of the legislation before us.

CHAIRMAN'S MARK

THE MEDICARE SUBVENTION DEMONSTRATION FOR VETERANS ACT OF 1999

Prepared by the Staff of the
Senate Committee on Finance
JUNE 24, 1999

On Thursday, June 24, 1999 at 10:00 a.m. in Room 215 Dirksen Senate Office Building, the Committee on Finance will meet to mark up an original bill, the "Medicare Subvention Demonstration for Veterans Act of 1999". The following memorandum outlines the Chairman's proposal.

I. Background

Today, due to budgetary limitations in appropriated dollars to the Department of Veterans Affairs (VA), certain veterans are increasingly being denied access to VA health care. These veterans, known as priority 7 veterans, do not meet specific income thresholds or have service connected disabilities that qualify them for priority care in the VA health care system. Many of these same veterans -- approximately 4 million -- are also eligible for Medicare. By allowing these veterans to utilize their Medicare benefits in the VA health care system, veterans may enjoy greater access to care.

II. Current Law

Under current law, Medicare is prohibited from reimbursing for any services provided by a Federal health care provider, except: (1) for emergency hospital services; (2) to a participating federal provider that is determined by the Department of Health and Human Services (HHS) to be providing services to the public generally as a community institution; (3) for services furnished by a participating hospital or skilled nursing facility of the Indian Health Service; and (4) for services furnished under arrangements made by a participating hospital. Medicare is prohibited from making payment to any Federal health care provider who is obligated by law or contract to render services at the public expense.

The Balanced Budget Act of 1997 (BBA 1997, PL-105-33) authorized the Secretaries of the Department of Defense (DoD) and Health and Human Services to establish a 3-year managed care demonstration project where HHS would reimburse DoD from Medicare trust funds for health care services furnished to certain Medicare-eligible military retirees or dependents. For this first time in the Medicare program, the BBA allowed for Medicare to reimburse another Federal provider.

III. Chairman's Proposal

Under the proposal, the Secretary of the Department of Health and Human Services ("Secretary") and the Secretary of the Department of Veterans Affairs may designate up to eight demonstration sites to deliver Medicare-covered services to targeted Medicare-eligible veterans. In this context, a targeted Medicare-eligible veteran is an individual who has reached age 65, is entitled and enrolled in Medicare parts A and B, and meets eligibility criteria as defined by VA for a priority 7 veteran -- a veteran who has no service connected disabilities and does not meet the low-income threshold.

The proposal allows the Department of Veterans Affairs (VA) to establish two different models of health care delivery, a coordinated care model and a fee-for-service model, with an equal number of sites representing each type of model. In addition, at least one demonstration site under each model must be operated in a predominantly rural area.

At least 30 days prior to commencement of the demonstration project, the Secretaries must submit to the Committees of jurisdiction an agreement entered into by the Secretaries providing a detailed plan describing the scope and implementation of the demonstration, including, but not limited to, a description of the benefits, eligibility rules for participation, sites selected, and certification by the Secretaries that VA hospitals and providers participating in the demonstration have the necessary resources and expertise as well as appropriate billing and information systems to carry out the demonstration.

The Secretaries may not implement the plan for any demonstration site until the Secretary of VA has received certification from the Inspector General of HHS that the VA (a) has cost accounting and related transaction systems to provide cost information and encounter data at each demonstration site; (b) has reliable and accurate cost and encounter data that is consistent across all demonstration sites; © has minimized the risk that VA appropriated dollars will be used for the Medicare demonstration; (d) has the capacity, for each demonstration site, to provide benefits under either model to a sufficient number of targeted Medicare-eligible veterans; and (e) has sufficient safeguards and systems, at each demonstration site, to minimize reduction in quality or access to care for veterans both participating and not participating in the demonstration.

The proposal allows the VA to establish a coordinated care health plan, that is operated through the VA and within a demonstration site and is consistent with Medicare+Choice requirements. The VA is required to provide, at a minimum, Medicare benefits as prescribed under Medicare+Choice rules and regulations (unless waived by the Secretary for specific reasons). Targeted Medicare-eligible veterans must *enroll* in the coordinated care health plan before receiving health care services under the demonstration.

The proposal also allows the VA to provide health care services, within a demonstration site, on a fee-for-service basis, consistent with rules and regulations governing Medicare parts A and B. The VA must *verify eligibility* for targeted Medicare-eligible veterans prior to these veterans receiving health care services under the demonstration.

The demonstrations for each model shall run in a staggered fashion. The coordinated care model shall begin on January 1, 2000, and terminate the earlier of (a) 3 years after the date enrollment begins at any demonstration site under this model; or (b) December 31, 2003. The fee-for-service model shall begin January 1, 2001, and terminate the earlier of (a) 3 years after the date enrollment begins at any demonstration site under this model; or (b) December 31, 2004. The duration of the demonstration is intended to allow for one year of start-up and implementation for each type of model followed by three years of health care delivery.

The Secretary shall reimburse the Secretary of Veterans Affairs, under the coordinated care model, at a rate equal to 95% of the amount paid to a Medicare+Choice organization. The Secretary shall reimburse the Secretary of Veterans Affairs, under the fee-for-service model, at a rate equal to 95% of the Medicare reimbursement that would be payable on a non-capitated basis. Disproportionate share hospital payments, direct graduate medical education, and indirect medical education shall be excluded from reimbursements made under the demonstration. However, payments shall include 33% of any amounts attributable to capital-related costs.

The proposal allows for an annual limit of $50 million for all demonstration sites. The Secretaries are given the discretion to determine the proportion of this limit that will apply to demonstration sites operating under each type of model in any given year.

The proposal includes a maintenance of effort requirement, where the Secretary may not reimburse the Secretary of VA under the demonstration, at any site, until expenditures by the VA exceed an established baseline amount for any given year (to be determined by the Secretaries jointly). In addition, the proposal requires an annual reconciliation process to assure no increase in costs to the Medicare program. The Comptroller General is required to report, annually, the extent, if any, to which the costs to the Medicare program under the demonstration have increased.

The proposal requires the Comptroller General to conduct three separate evaluations of the demonstration project for each model. The Secretaries are also required to submit a report to Congress, following the final evaluation issued by the Comptroller General, containing final recommendations on extension and expansion of the demonstration.

IV. Effective Date

The proposal would be effective on or after January 1, 2000.

V. Offset

The BBA 1997 provides for bad debt payments to hospitals to be reduced by 25% in FY 1998, 40% in FY 1999, and 55% in FY 2000 and every year thereafter. Under the proposal, bad debt payments to hospitals would be reduced by 49% in FY 2000 and every year thereafter.

COMMITTEE ON FINANCE

MODIFICATIONS TO CHAIRMAN'S PROPOSAL

JUNE 24, 1999

A. Extension of Medicare Subvention Demonstration for Military Retirees

Current Law

The BBA 1997 authorized the Secretary of the Department of Health and Human Services ("Secretary") and the Secretary of Defense to establish a 3-year subvention demonstration. This demonstration allows Medicare-eligible military retirees to receive Medicare-covered services under the Department of Defense health plan. The Secretary reimburses the Secretary of Defense for services provided to these retirees. The demonstration, established at six sites nationwide, began January 1, 1998 and is scheduled to terminate December 31, 2000.

Chairman's Proposal

The Chairman's proposal would extend the duration of the current demonstration until December 31, 2001. The aggregate amount to be reimbursed to the Secretary of Defense for the demonstration in year 2001 shall not exceed $65 million.

B. Authorization for a Fee-for-Service model under the Subvention Demonstration for Military Retirees

Current Law

The BBA 1997 authorized the Secretary and the Secretary of Defense to establish a 3-year subvention demonstration under a managed care model only - in accordance with Medicare+Choice rules and regulations.

Chairman's Proposal

The Chairman's proposal would give the Secretary and the Secretary of Defense the authority to include a fee-for-service model at one or more of the existing demonstration sites, if determined to be feasible by the Secretaries jointly. The fee-for-service model under the demonstration would be subject to all rules and regulations, including, but not limited to, beneficiary cost-sharing and provider/hospital certification requirements, as established under Medicare Parts A and B. The Secretary would reimburse the Secretary of Defense at a rate equal to 95% of the Medicare reimbursement that would be payable on a non-capitated basis. The fee-for-service model would be subject to existing maintenance of effort, reporting, and evaluation requirements. The sum of reimbursements made for the managed care and fee-for-service models under the demonstration would be subject to existing annual limits.

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CHAFEE AMENDMENT TO CHAIRMAN'S MARK OF
MEDICARE SUBVENTION DEMONSTRATION FOR VETERANS ACT OF 1999
June 24, 1999

In selecting demonstration sites under this proposal, the Secretaries of HHS and Veterans Affairs should give preference to VA networks that have experienced a reduction in funding, relative to the nationwide system, during the previous five years.

Committee On Finance

William V. Roth, Jr., Chairman

NEWS RELEASE

www.senate.gov/~finance

FOR IMMEDIATE RELEASE
June 24, 1999

Press Release #106-163
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ROTH STATEMENT AT MARK UP OF VETERANS HEALTH CARE BILL

WASHINGTON -- The Senate Finance Committee met today to mark up the Medicare Subvention Demonstration for Veterans Act. The Chairman William V. Roth, Jr. (R-DE) gave the following opening statement:

"We are here today to mark up a very important bill, the Medicare Subvention Demonstration for Veterans Act of 1999. This is a much anticipated event for the Finance Committee, as subvention legislation for veterans has been in progress for many years.

"I would especially like to thank Senators Moynihan, Jeffords, Rockefeller and Specter for their dedication and commitment to this effort. After many months of hard work and negotiations, I am pleased this bill has finally come to fruition.

"Maintaining access to quality health care for our veterans is of tremendous importance. Today, due to VA cutbacks, certain veterans are increasingly being denied access to VA health care. These veterans, known as priority 7 veterans, do not meet specific income thresholds or have service connected disabilities that qualify them for priority care in the VA health care system. Many of these same veterans – approximately 4 million - are also eligible for Medicare.

"The Medicare Demonstration for Veterans Act of 1999 would allow these Medicare-eligible veterans to utilize their Medicare benefits and receive Medicare-covered services through the VA health care system. The Secretary of Veterans Affairs is reimbursed by the Secretary of Health of Human Services for the care these Veterans receive. This substantially improves veterans access to the VA health system.

"In addition, the demonstration provides an opportunity to examine whether use of the VA hospitals and providers can save Medicare money.

"I am also pleased to announce the one-year extension of the Medicare Subvention Demonstration for military retirees included in the bill. I am hopeful that we can continue to work together to get this bill passed. I strongly encourage the Committee to move this bill without amendments."

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