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Opening Statement of the Honorable Chuck Grassley, Ranking Member
Senate Finance Committee
Budget Hearing with Secretary Michael Leavitt
February 6, 2008

Thank you, Chairman Baucus. And thank you, Secretary Leavitt, for coming to discuss the President's spending proposals related to health care. To start off, one area of great interest in the budget is the State Children's Health Insurance Program (SCHIP). Last year's budget included only about a \$5 billion increase for SCHIP, which many experts deemed insufficient. Even though funding for outreach activities to enroll uninsured children had been provided in earlier budgets, last year's budget included no funding at all for these activities.

Many Members of Congress supported the Administration's proposal for SCHIP during last year's reauthorization debate. As you know, we were not successful in reauthorizing SCHIP last year. Instead, Congress passed and the President signed an extension of the program through March, 2009. While I am hopeful that SCHIP can be revisited, it is more likely that the debate will resume in the 111th Congress.

It is therefore a bit surprising to me that this year's budget proposal actually puts forward a more credible funding amount for SCHIP. Instead of about \$4 billion to reauthorize SCHIP, this year's budget has about \$20 billion – almost five times as much. And the additional funding for outreach and enrollment has also reappeared in this year's budget.

First of all, let me commend you for the proposal. It is a more thoughtful and realistic proposal than what was offered last year. In fact, I'll go as far as to say that if the Administration had offered this proposal a year ago, it would have made a real difference.

On Monday, I wrote a letter to you and to OMB Director Nussle about this. In that letter, I requested that you provide an explanation of how and WHEN you came to the realization that last year's proposal was off-base and that substantially more funding was required to reauthorize SCHIP. I, for one, would like some answers and I bet a lot of my colleagues feel the same way. I would ask consent that a copy of that letter appear in the record. I hope that your testimony will answer the questions in my letter and detail why the Administration has done such an about-face in terms of SCHIP.

Now I would like to turn to Medicare. When it comes to the situation we have with Medicare, we

need to think long and hard about its long term implications on the budget and what to do about it.

One troubling area is physician payments. The physician payment sustainable growth rate (SGR) formula is still fundamentally flawed. At the end of last year, Congress passed the Medicare, Medicaid, and S-CHIP Extension Act of 2007. It temporarily eliminated the 10.1 percent scheduled cut to physician payments. It provided a six-month, 0.5 percent increase instead. It also extended the physician quality reporting system, and it included a 1.5% bonus payment to physicians for reporting quality measures in 2008.

However, if Congress doesn't act by June, physicians face severe payment cuts in the second half of 2008. And without further action, Medicare payments to physicians will plummet in the next several years.

These continued payment cuts could threaten access for beneficiaries if physicians decline to participate in Medicare or to accept new Medicare patients. While the President's budget does not offer any ideas for addressing the physician payment dilemma, it is undoubtedly one of the biggest challenges we face.

On a broader level, the President's budget achieves a substantial portion of its savings from Medicare provider payment reductions. Many of these recommendations go far further than what the Medicare Payment Advisory Commission has recommended.

We must look beyond payment updates to control Medicare spending. Instead, the way that this program pays providers is in need of comprehensive reform. Today, Medicare rewards poor quality care. That is just plain wrong and we need to address this problem. Linking provider payment to quality care is one way to make Medicare a better purchaser of health care services.

The Administration recently released a plan required in the Deficit Reduction Act to implement value-based purchasing for hospital services. I am pleased with the thought that was put into developing this plan. And I look forward to working with Chairman Baucus and other members of the Committee to transform how Medicare pays for hospital services.

I am also pleased to see proposals in the budget to improve the Quality Improvement Organization or QIO program. Last year, I introduced a bill with Chairman Baucus to comprehensively reform this program. I look forward to hearing more about your ideas on how to ensure that the hundreds of millions of taxpayer dollars that go to QIOs each year are dollars put to good use.

Also, included in this year's budget is President Bush's plan to help more Americans get health insurance. About 47 million Americans have no health care coverage. As I noted last year, the President has proposed correcting a flaw in health care tax policy. The Joint Committee on Taxation estimates that over the next decade, Americans will receive more than \$1 trillion in tax benefits for health care under our current tax law. But whether a worker receives a tax benefit depends on whether his employer chooses to provide health insurance.

Those benefits could be more fairly directed to help to meet the needs of the millions of Americans without health insurance. President Bush would extend the tax incentives for purchasing health

coverage to the self-employed and those who buy health coverage on their own. Such an approach would be more equitable. And it would make health insurance portable as people change jobs.

I hope that as we discuss how to insure more people, we can consider some changes to the taxation of benefits that will both expand health insurance coverage and contain health care costs. Lastly, Mr. Chairman, I also request that a lengthy letter and attachments regarding an investigation into the Food and Drug Administration be inserted into the record. It is dated today.

Mr. Secretary, I strongly encourage you to read my letter personally. It describes a troubling series of events involving the FDA, Wyeth and a safety officer at the FDA. It involves the hiring of private investigators by Wyeth to find "dirt" on a safety officer and FDA investigators submitting a criminal referral to a United States Attorney's office that was riddled with false information. Mr. Chairman, if there is no objection I would like to submit this letter and its attachments into the record. Mr. Secretary, thank you again for being here today and for sharing more detail on the President's proposals.