

THE WHITE HOUSE

Office of the Press Secretary

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**21<sup>st</sup> CENTURY MEDICARE: MORE CHOICES—BETTER  
BENEFITS**

**A FRAMEWORK TO MODERNIZE AND IMPROVE MEDICARE**

*“Seniors happy with the current Medicare system should be able to keep their coverage just the way it is. And just like you, the Members of Congress, members of your staffs, and other federal employees, all seniors should have the choice of a health care plan that provides prescription drugs. My budget will commit an additional 400 billion dollars over the next decade to reform and strengthen Medicare—I urge the members of this new Congress to act this year.”*

President George W. Bush, State of the Union, January 2003

**I. EXECUTIVE SUMMARY**

Since Medicare was enacted in 1965, it has provided health care security to millions of America’s seniors and people with disabilities. Medicare is the binding commitment of a caring society to our most vulnerable citizens, and a commitment that America must always keep.

As successful as the Medicare program has been, it has not always kept pace with decades of dramatic improvements in health care. As a result, Medicare beneficiaries today lack many of the choices and benefits available to millions of other Americans. Medicare still does not provide an outpatient prescription drug benefit, forcing many seniors to go without the medicines they need. Medicare does not provide full coverage for important preventive health care, such as cancer or diabetes screenings, and it does not offer protection against uncapped medical costs that can rob seniors of their savings.

Moreover, with health care costs on the rise and the Baby Boom generation nearing retirement, Medicare faces serious financial challenges. This will require Medicare to make the best use of today’s modern health care delivery methods to maximize the benefits for current and future participants while addressing the long-term sustainability of the program.

President Bush believes our nation has a moral obligation to fulfill Medicare’s promise of health care security for America’s seniors and people with disabilities. To meet this obligation, the nation must act now to bring Medicare into the 21<sup>st</sup> Century by providing more choices and better benefits to every senior in America.

In July 2001, the President outlined the following principles for Medicare reform:

1. All seniors should have the option of a subsidized prescription drug benefit as part of modernized Medicare.
2. Modernized Medicare should provide better coverage for preventive care and serious illness.
3. Beneficiaries should have the option of keeping the traditional plan with no changes.
4. Medicare should provide better health insurance options, like those available to all federal employees.
5. Medicare legislation should strengthen the program's long-term financial security.
6. The management of the government Medicare plan should be strengthened so that it can provide better care for seniors.
7. Medicare's regulations and administrative procedures should be updated and streamlined, while the instances of fraud and abuse should be reduced.
8. Medicare should encourage high-quality health care for seniors.

The President today is proposing a Framework to Modernize and Improve Medicare that builds on these principles. He looks forward to working with Congress on legislation this year to bring more choices and better benefits to Medicare. The President has committed up to \$400 billion over the next ten years in his FY 2004 budget to pay for modernizing and improving Medicare.

The President's framework will give all Medicare beneficiaries access to:

- **Prescription drug coverage** that enables seniors to get the medicines they need, without the government dictating their drug choices.
- **Choice of an individual health care plan that best fits their needs**—just like Members of Congress and other federal employees enjoy today.
- **Choice of the doctor, hospital, or place** they want for the treatment and care they need.
- **Full coverage for disease prevention** such as screenings for cancer, diabetes and osteoporosis.
- **Protection from high out-of-pocket costs** that threaten to rob seniors of their savings.

The President will make sure that low-income seniors receive additional financial assistance so they will not have to pay more to receive better benefits than they currently do under Medicare.

For too long, political pressures have kept our nation from bringing the benefits of modern health care to Medicare. The President is calling upon members of both political parties to work together with him to pass legislation this year.

### **More Choices—Including the Choice to Stay in Traditional Medicare**

The President believes Medicare beneficiaries should be given more choices in how they receive their health care—and these choices should be strictly voluntary.

Those seniors who are happy with their current coverage in traditional Medicare will be able to keep that coverage and receive help with the high costs of prescription drugs. **Traditional Medicare will continue to be there for those who want it with help for prescription drugs.**

But seniors who want more choices and better benefits—including a prescription drug benefit, full coverage of preventive care and limits on high out-of-pocket costs—will be able to select options providing these additional benefits as well. Seniors will have the right to select the health plan that fits their needs best—rather than a one-size-fits-all government plan.

## **Better Benefits—Including Prescription Drug Coverage**

### **Option 1—Traditional Medicare**

Those who are satisfied with the current Medicare system will continue receiving their care as they do today with help for the high costs of prescription drugs. These beneficiaries will gain access to discounted drugs through a prescription drug discount card—estimated to achieve savings of 10-25% on the cost of prescription drugs—as well as coverage to protect them against high out-of-pocket prescription drug expenses. These new benefits will be provided at no additional premium.

### **Option 2—Enhanced Medicare**

Enhanced Medicare will give seniors the same types of choices that are available to members of Congress and other federal employees. In every area of the country, Medicare beneficiaries will have multiple health plans from which to choose. These plans will offer prescription drug benefits, full coverage of preventive benefits, protection against high out-of-pocket drug costs, and cost sharing that does not penalize participants who need the most medical care. Again, the decision to choose Enhanced Medicare will be entirely up to each senior, and participants will be able to choose any doctor or any hospital they want for the treatment and care they need.

The President's framework will ensure that the benefits offered under Enhanced Medicare are sufficiently attractive to seniors, relative to traditional Medicare, to guarantee that Enhanced Medicare is a viable system.

### **Option 3—Medicare Advantage**

Seniors will also have the option of enrolling in low-cost and high-coverage managed care plans, similar to those available today under Medicare. Medicare Advantage will include plans that offer a subsidized drug benefit, and all plans will be able to offer extra benefits, as many private plans do today.

## **Immediate Discounts for all Seniors**

To ensure that seniors are provided help as soon as possible, the President will ask Congress to immediately provide all seniors with a drug discount card that is estimated to achieve savings of 10 to 25 percent on the cost of prescription drugs by pooling the buying power of Medicare participants.

## **Additional Help for Low-Income Seniors**

Under the President's framework, low-income Medicare beneficiaries will get prescription drug coverage without paying additional premiums and will receive additional assistance with their cost-sharing. The President will ask Congress to provide low-income seniors immediately with a prescription drug discount card, as well as a \$600 annual subsidy for drug coverage, which will continue for low-income seniors who stay in traditional Medicare. This subsidy can be added to their discount card at the point of sale, or alternatively paid to existing Medicare Choice health plans that enroll low-income seniors and provide them with prescription drug coverage.

## II. A FRAMEWORK TO MODERNIZE AND IMPROVE MEDICARE

### Background

Since Medicare was enacted in 1965, it has provided health care security to millions of America’s seniors and people with disabilities. The program was established using the most current insurance models of its day and has proven successful in extending coverage to some of society’s most vulnerable members. Today, Medicare provides health care coverage for 40 million Americans. Enrollment is expected to reach 77 million by 2031, when the Baby Boom generation is fully enrolled.

As successful as Medicare has been, it has not kept pace with decades of dramatic improvements in health care delivery. As a result, Medicare today does not provide the benefits and choices that are available to many other Americans. The program lacks an outpatient prescription drug benefit, full coverage of many preventive benefits, and protection from high out-of-pocket costs.

Medicare’s current hospital coverage illustrates the need to update the program. Instead of providing more coverage for patients when they get sick and go into the hospital, Medicare actually requires them to pay more when they need to stay longer in a hospital. This is just the opposite of what Americans in most private health plans experience today.

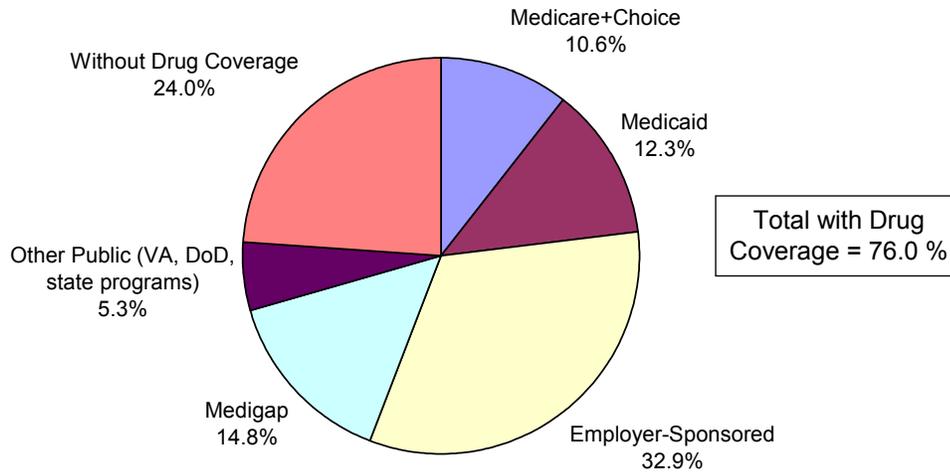
#### **Current Medicare and Sample Federal Employee Cost-Sharing Requirements for Inpatient Hospital Care**

<b>Participant Pays</b>		
<b>Hospital Stay</b>	<b>Current Medicare</b>	<b>Standard Blue Cross/Blue Shield Plan for Federal Employees</b>
Days 1-60	\$840 per admission	\$100 co-payment per admission
Days 61-90	\$210 per day	\$0 per day
Days 91-150	\$420 per day	\$0 per day
Over 150 Days	<u>All</u> Costs	\$0 per day

Many participants in Medicare bolster their Medicare coverage with supplemental policies (Medigap) or retiree health insurance. Some seniors—those with the lowest incomes—are eligible for coverage from Medicaid. But many seniors do not have access to affordable supplemental assistance, leaving them vulnerable to the high costs of serious illness.

Twenty-four percent of Medicare participants lack any drug coverage, millions more have very limited drug coverage, and many cannot afford the drugs they need to maintain their health and prevent serious illness (see below).

**Percent of Medicare Beneficiaries with Drug Coverage, by Source of Coverage (2002 Projection)**



SOURCE: CMS analysis of the non-institutionalized Medicare population.

Absent substantial reform of the Medicare program, the situation is certain to worsen. Premiums for Medigap plans, particularly those with drug coverage, have increased considerably over the past three years and are often unaffordable for participants of modest means. At the same time, employers find it increasingly difficult to fund retiree health care, and many have reduced or eliminated these benefits.

To ensure that Medicare provides a secure health care future for today’s seniors and future retirees, the nation must act now to modernize and improve the program. The President has committed up to \$400 billion over the next ten years to pay for modernizing Medicare, and looks forward to working with Congress to develop and pass legislation this year.

President Bush’s framework will give all Medicare beneficiaries access to:

- **Prescription drug coverage** that enables seniors to get the medicines they need, without the government dictating their drug choices.
- **Choice of an individual health care plan that best fits their needs**—just like Members of Congress and other federal employees enjoy.
- **Choice of the doctor, hospital, or place** they want for the treatment and care they need.

- **Full coverage for disease prevention** such as screenings for cancer, diabetes and osteoporosis.
- **Protection from high out-of-pocket costs** that threaten to rob seniors of their savings.

## **More Choices—Including the Choice to Stay in Traditional Medicare**

A key part of modernizing and improving Medicare is adding flexibility to the program so that Medicare participants have the right to more choices in how they receive their care—including the choice of staying exactly where they are today.

Those who have coverage they value in traditional Medicare will be able to keep that coverage and receive help paying for the high cost of prescription drugs. **Traditional Medicare will continue to be there for those who want it with help for prescription drug costs.**

But seniors who want to have more choices and better benefits—including a comprehensive prescription drug benefit, full coverage of preventive care and limits on high out-of-pocket costs—will have that choice as well. They will be able to enjoy the same types of choices that members of Congress and other federal employees do.

If Congress passes legislation this year, then these choices will be available beginning January 1, 2006. In the meantime, to give seniors more immediate help with prescription drugs, the President is proposing to make a prescription drug discount card available to all seniors and to provide an additional \$600 subsidy to low-income participants for their prescription drug costs.

## **Better Benefits—Including Prescription Drug Coverage**

### **Option 1—Traditional Medicare**

Seniors currently enrolled in traditional Medicare could continue receiving their care as they do today through the current benefit structure with additional help for the high cost of prescription drugs. Part B premiums for participants in traditional Medicare would not be affected by the creation of Enhanced Medicare.

Additionally, beneficiaries remaining in traditional Medicare will be able to receive coverage to protect them against high out-of-pocket prescription drug expenses, at no additional premium. They can also choose to receive a drug discount card like all seniors.

Participants who are satisfied with their current coverage could also continue receiving coverage from supplemental sources, including former employers, Medigap or Medicaid. The President's framework will add two new Medigap plans to the existing ten standardized plans. These new plans will include prescription drug assistance, additional protection against high out-of-pocket costs, and would reduce, but not eliminate, deductibles and co-payments.

## Option 2—Enhanced Medicare

Under Enhanced Medicare, seniors will receive a choice of plans similar to those offered to federal employees and members of Congress through the Federal Employees Health Benefit Plan (FEHBP). The choice of plans would be available to all seniors regardless of where they live. Enhanced Medicare will offer benefits described below and standard drug coverage (or an equivalent benefit package). As with traditional Medicare, the federal government will pay for most of the cost of coverage under Enhanced Medicare, with participants paying a smaller share. Beneficiaries who enroll in an average priced plan in their region would pay a premium for the medical portion of their coverage equal to the Part B premium.

Under Enhanced Medicare, seniors will be able to choose any doctor, any hospital, in any place for the treatment and care they need. Additionally, Enhanced Medicare plans will offer seniors the option of further limiting their out-of-pocket costs through supplemental coverage.

### Enhanced Medicare will include the following benefits:

- **Prescription Drug Coverage:** Under Enhanced Medicare, plans will offer a subsidized prescription drug benefit with a monthly premium, an annual deductible, coverage of prescription drug costs and protections for those who have high drug costs. Low-income seniors will receive this drug coverage for no additional premium and will receive additional subsidies to limit their copayments.

To provide an array of choices in benefit design and to encourage plan innovation, plans will be free to structure their offerings differently, provided the benefit meets a basic federal standard. Further, plans will be required to show that any changes they make to the standard benefit package are not meant to attract only healthy enrollees or discourage the sick or people with disabilities from joining.

- **Full Coverage of Preventive Benefits:** Currently, Medicare covers certain preventive services only after the Part B deductible is met. In addition, many preventive services require co-insurance. Enhanced Medicare plans will provide full coverage of preventive services. Full coverage will remove the financial barriers for low-income seniors, who are less likely to seek preventive treatment, such as prostate cancer screenings and mammographies.
- **Protection from High Out-of-Pocket Costs:** Traditional Medicare does not protect patients from uncapped costs. Enhanced Medicare will eliminate the lifetime limit for inpatient hospital care and protect against high medical bills for hospitalizations. In Enhanced Medicare, participants with very high out-of-pocket costs will face no additional cost sharing. Traditional Medicare does not limit these costs.
- **Fairer Cost Sharing:** Currently, traditional Medicare penalizes its sickest participants by requiring them to pay more when they need to stay longer in a hospital. At the same time, Medicare requires cost-sharing for some services, but not for others. For example,

patients pay 20 percent or more when they visit their doctor or a hospital outpatient department, but those needing home health care pay nothing out-of-pocket.

Under Enhanced Medicare, participants will have a single deductible for medical services, like that in most private insurance plans, to provide better protection from high expenses for all types of health care. The single deductible will replace the separate Part A and Part B deductibles. Additionally, after a lower deductible, participants would pay nothing for their first two inpatient hospital admissions in a year and a reasonable copay for any subsequent admission. These changes will provide better protection for participants who need the most medical care. Further, Enhanced Medicare will have sensible cost-sharing requirements on all other services, including limits on out-of-network cost sharing.

### **Assistance for Low-Income Seniors in Enhanced Medicare**

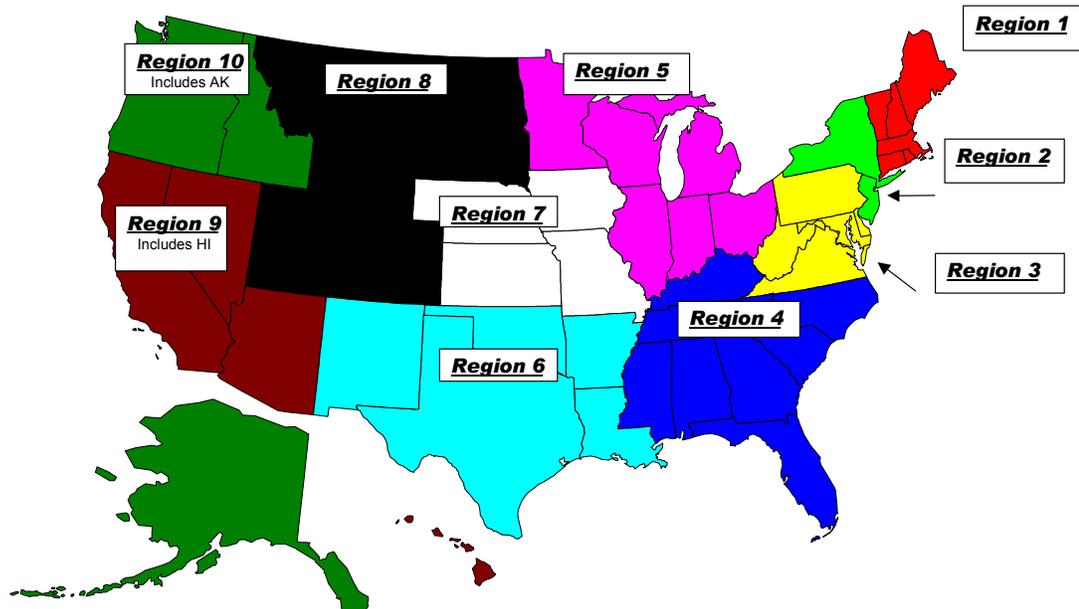
Under Enhanced Medicare, low-income participants who are not eligible for Medicaid will receive financial assistance with out-of-pocket prescription drug costs. Lowest income participants will pay no drug premiums or deductibles and will pay only nominal cost sharing, regardless of their level of out-of-pocket spending. States would determine eligibility for low-income assistance.

### **Administration of Enhanced Medicare**

Enhanced Medicare will be administered by a new Medicare Center for Beneficiary Choices (MCBC) under the Department of Health and Human Services.

The MCBC will designate large, multi-state Medicare regions. In each region, seniors and people with disabilities will have several Enhanced Medicare options. The chart below illustrates one way in which these large, multi-state regions might be structured.

## **Enhanced Medicare Sample Regions**



Plans will submit bids to the MCBC for the opportunity to serve one or more of the Medicare regions, and plans will have to accept any Medicare participant wishing to enroll regardless of whether the beneficiary lives in a rural or remote area. This approach minimizes risk selection and guarantees access for all seniors to these plans, as is the case with the Federal Employees Health Benefit Program.

### **Option 3—Medicare Advantage**

In addition to Enhanced Medicare, seniors will have the option of enrolling in the same type of low-cost and high-coverage managed care plans that are available today under Medicare. Currently 5 million Medicare participants choose to get their benefits and receive additional services from such plans. These plans often offer broader coverage at a lower cost than the combination of Medicare and Medigap plans that many seniors choose.

Under the newly created Medicare Advantage program, plans in competitive markets will bid to provide participants with Medicare's enhanced basic benefit package. Participants who select more efficient plans will benefit from savings, and some participants in the most efficient plans could pay no premium at all and potentially qualify for a rebate on their premium.

Advantage plans will continue to be a good choice for participants willing to accept a more selective provider panel in exchange for lower cost sharing and extra benefits. Creating a system in which different types of delivery systems compete for participants' business will result in a marketplace where plans in each system will have strong incentives to provide the most efficient

and highest quality care. Efficient plans will be able to offer extra benefits and/or reduced cost sharing.

Advantage Plans will also be able to offer a benefits package without drugs for those participants who are satisfied with drug coverage they already have. Just as in Enhanced Medicare, low-income seniors will pay no additional cost for a drug benefit offered through Medicare Advantage plans. Other enrollees will pay a monthly premium to pay for their share of the prescription drug benefit costs.

## **Immediate Discounts for all Seniors**

A Medicare-endorsed prescription drug discount card will provide an opportunity for all seniors to get discounted drugs as Medicare transitions to a modernized system. All participants, for a nominal enrollment fee (waived for low-income seniors), will be able to join a discount card plan. The card will let them pool their buying power with that of other participants to obtain manufacturers' discounts, with savings from 10 to 25 percent. No longer will uninsured seniors face the highest retail prices of any group. In addition, drug card sponsors, which could include Pharmacy Benefit Managers and other entities, will publish comparative information on drug prices to help seniors make smart buying choices.

## **Additional Help for Low-income seniors**

Under the President's framework, low-income seniors who enroll in Enhanced Medicare will get prescription drug coverage without paying additional premiums and will receive additional assistance with their cost-sharing for prescription drugs. Like all seniors, they will be eligible to receive immediately a Medicare drug discount card, at no cost, which would provide them with estimated savings of 10 to 25 percent on the price of prescription drugs. In addition, low-income seniors will receive an added subsidy of \$600 annually to pay for prescription drugs. The subsidy will be added to their discount card and work like other federal electronic benefit transfer programs, with the card providing the subsidy at the point of sale. The subsidy could alternatively be paid to existing Medicare+Choice plans that enroll low-income seniors and provide them with prescription drug coverage.

## **SUMMARY**

The President's framework for Medicare will provide more choices and better benefits for all seniors. If legislation is passed in 2003, then beginning next year, seniors will have the following benefits:

In 2004: All seniors will receive access to discounted drugs (discount of 10-25%) through Medicare-endorsed prescription drug discount cards.

All low-income seniors will have access to drug discounts through the card, and an additional \$600 per year to assist in purchasing prescription drugs.

In 2006: Seniors will have the option of staying in Traditional Medicare and receiving a prescription drug discount card, coupled with coverage that would protect them against high out-of-pocket costs for their prescription medicines.

All seniors will have access to at least three new Enhanced Medicare plans that offer:

- comprehensive prescription drug coverage;
- full coverage of preventive care; and
- protection against high out-of-pocket medical costs.

Seniors will still have the option of choosing a Medicare Advantage plan that will offer prescription drug coverage and other benefits in a managed care setting.

## **Conclusion: Medicare for Today and Tomorrow**

President Bush is committed to ensuring that Medicare will always be there for seniors and people with disabilities. His ideas for modernizing and improving Medicare build on the strengths and successes of the current system, while guaranteeing that all seniors will have access to a prescription drug benefit and other benefits Medicare does not offer today. Under the President's framework for Medicare, seniors will have the right to the same type of health care benefits enjoyed by members of Congress and other employees of the federal government. Low-income seniors will not pay more for additional benefits.

To improve, Medicare must have the benefit of modern health care delivery systems and methods that have proven successful in the private sector. The President's initiative will introduce private sector innovation and competition to the Medicare system to help keep costs reasonable, ensure high quality care and begin to address Medicare's long-term financial challenges.

While Medicare must be modernized and improved to meet the needs of its current participants, the program must also be made sustainable for future generations. Given the financial challenges Medicare faces in the future, changes to the Medicare program we make today must not exceed our nation's means to deliver them tomorrow.

Seniors have waited too long for a modernized Medicare with a prescription drug benefit. It is time for members of both political parties to work together to pass legislation this year that will modernize and improve Medicare for seniors today and tomorrow.