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MEDICARE SUBVENTION DEMONSTRATION FOR VETERANS ACT OF 1999

NOVEMBER 16, 1999.—Ordered to be printed

Mr. ROTH, from the Committee on Finance, submitted the following

REPORT

[To accompany S. 1928]

[Including cost estimate of the Congressional Budget Office]

The Committee on Finance, having considered an original bill (S. 1928) to amend title XVIII of the Social Security Act to establish a medicare subvention demonstration project for veterans, and for other purposes, reports favorably thereon without amendment, and recommends that the bill do pass.

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79–010

I. SUMMARY AND BACKGROUND

A. SUMMARY

The original bill, with amendments, as reported by the Committee on Finance, authorizes a four-year demonstration where the Department of Health and Human Services (DHHS) and the Department of Veterans Affairs (VA) may designate up to eight sites to deliver Medicare-covered services to targeted Medicare-eligible veterans; extends the duration of the current Medicare subvention demonstration under the Department of Defense (DoD) until December 31, 2001; and authorizes the inclusion of a fee-for-service model of health care delivery at one or more of the existing sites under the DoD demonstration.

B. BACKGROUND AND REASON FOR LEGISLATION

Today, due to budgetary limitations in appropriated dollars to the VA, certain veterans could potentially face limitations in 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.

C. LEGISLATIVE HISTORY

An original bill was considered in a Committee on Finance markup on June 24, 1999, and was ordered favorably reported by voice vote.

II. EXPLANATION OF THE BILL

A. SECTION 1. SHORT TITLE

The short title of the bill is the "Medicare Subvention Demonstration for Veterans Act of 1999."

B. SECTION 2. PURPOSES

The Chairman's mark is based on an original bill and has three primary purposes as set forth in the bill. First, the mark provides for a four-year demonstration where the DHHS and the VA may designate up to eight sites to deliver Medicare-covered services to targeted Medicare-eligible veterans under both coordinated care and fee- for-service models. Second, the mark extends the duration of the current DoD demonstration under Medicare until December 31, 2001, compensating for the 12 months dedicated to operational start-up issues where health care services delivery did not occur. Third, the mark authorizes the inclusion of a fee-for-service model of health care at one or more of the existing sites under the DoD demonstration in an effort to create equitable choices among both DoD and VA demonstrations.

C. Medicare Demonstration for Veterans

1. ESTABLISHMENT OF DEMONSTRATION

Present 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) for services of a participating federal provider that is determined by the DHHS to be providing services to the public generally as a community institution; (3) for services furnished by a participating hospital or stilled nursing facility of the Indian Health Service; and (4) for services furnished under arrangements made by a participating hospital. Medicare is prohibited form 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, P.L. 105–33) authorized the Secretaries of the DDHS and the DoD to establish a 3-year managed care demonstration project where the DHHS would reimburse the DoD from Medicare trust funds for health care services furnished to certain Medicare-eligible military retirees or dependents. For the first time in the Medicare program, the BBA demonstration project allowed Medicare to subsidize services delivered under the auspices of another Federal program.

Explanation of provision

Under the proposal, the Secretary of the DHHS (Secretary) and the Secretary of the VA may designated 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 to and enrolled in Medicare Parts A and B, and meets eligibility criteria as defined by the VA for a priority 7 veteran, i.e., a veteran who has no service-connected disabilities and does not meet the low-income threshold.

The proposal allows the 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 additional, at least one demonstration site under each model must 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 the 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 the VA has received certification from the Inspector General of the DHHS that the VA: (a) has cost accounting and related transaction systems to provide cost informa-

tion and encounter data at each demonstration site; (b) has reliable and accurate cost and encounter data that is consistent across all demonstration sites; (c) 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 the Medicare Program's Medicare+Choice requirements for health plans. 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 would run in a staggered fashion. The coordinated care model would 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 would 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 startup and implementation for each type of model followed by three years of health care delivery.

The Secretary of DHHS would reimburse the Secretary of the VA, under the coordinated care model, at a rate equal to 95 percent of the amount paid to a Medicare+Choice organization. The Secretary of DHHS would reimburse the Secretary of the VA, under the fee-for-service model, at a rate equal to 95 percent of the Medicare reimbursement that would be payable on a non-capitated basis. Disproportionate share hospital payments, and payments for direct and indirect graduate medical education would be excluded from reimbursements made under the demonstration. Payments would include 33 percent 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 of DHHS may not reimburse the Secretary of the 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 separate evaluations of the demonstrations 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.

Effective date

On or after January 1, 2000.

2. EXPANSION OF DEMONSTRATION FOR MEDICARE-ELIGIBLE MILITARY RETIREES

Current law

The BBA 1997 authorized the Secretary and the Secretary of DoD to establish a 3-year subvention demonstration. This demonstration allows Medicare-eligible military retirees to receive Medicare-covered services under the DoD health plan, known as Tricare. The Secretary reimburses the Secretary of the DoD 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.

Explanation of provision

The proposed extends 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.

Effective date

On or after January 1, 2000.

3. INCLUSION OF A FEE-FOR-SERVICE MODEL UNDER THE DEMONSTRATION OF MILITARY RETIREES

Current law

The BBA 1997 authorized the Secretary and the Secretary of the DoD to establish a 3-year demonstration to provide health care delivery in accordance with Medicare+Choice rules and regulations.

Explanation of the provision

The proposal gives the Secretary and the Secretary of the DoD the authority to include a fee-for-service model of health care delivery at one or more of the existing demonstration sites, if determined jointly by the Secretaries to be feasible. The fee-for-service model under the demonstration is subject to all rules and regulations, including, but not limited to, beneficiary cost-sharing and provider and hospital certification requirements, as established under Medicare Parts A and B. The Secretary is authorized to re-

imburse the Secretary of the DoD at a rate equal to 95 percent of the Medicare reimbursement that would be payable on a non-capitated basis. The fee-for-service model is subject to existing maintenance of effort, reporting, and evaluation requirements. The sum of reimbursements made for the coordinated care and fee-for-service models under the demonstration is subject to existing annual limits.

Effective date

On or after January 1, 2000.

D. Revenue Offsets

1. Reduction of bad debt payments under Medicare

Current law

Certain hospital and other provider bad debts are reimbursed by Medicare on an allowable-cost basis. To be qualified for reimbursement, the debt must be related to covered services and derived from deductible and coinsurance amounts left unpaid by Medicare beneficiaries. The provider must be able to establish that reasonable collection efforts were made and that sound business judgment has established that there is no likelihood of recovery at any time in the future. Medicare pays for bad debt payments according to the following schedule:

FY 1998: 75 percent of bad debt payments were reimbursed by Medicare

FY 1999: 60 percent of bad debt payments are reimbursed by Medicare

FY 2000: 55 percent of bad debt payments are reimbursed by Medicare (and for each subsequent year thereafter)

Explanation of provision

Medicare payments for bad debt are reduced by 6 percent, allowing a total of 49 percent of bad debt payments to be reimbursed by Medicare. Although this provision is included in the bill as reported, it is not the intent of the Committee that it be included when the bill is brought up for consideration before the Senate.

Effective date

FY 2000.

III. BUDGET EFFECTS OF THE BILL

In compliance with sections 308 and 403 of the Congressional Budget Act of 1974, and paragraph 11(a) of rule XXVI of the Standing Rules of the Senate, the following letter has been received from the Congressional Budget Office on the budgetary impact of the legislation:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, November 10, 1999.

Hon. WILLIAM V. ROTH, Jr.,
Chairman, Committee on Finance,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for the Medicare Subvention Demonstration for Veterans Act of 1999.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Tom Bradley.

Sincerely,

BARRY B. ANDERSON
(For Dan L. Crippen, Director).

Enclosure.

Medicare Subvention Demonstration for Veterans Act of 1999

Summary: The Medicare Subvention Demonstration for Veterans Act would require the Secretaries of Health and Human Services (HHS) and Veterans Affairs (VA) to establish a demonstration project in which Medicare pays for the VA for Medicare-covered services furnished to certain veterans who are entitled to Medicare. (Medicare payment to federal providers of health care services is referred to as Medicare subvention.) The bill also would extend and modify a demonstration project of Medicare subvention involving the Department of Defense (DoD). Finally, the bill would reduce Medicare payments to hospitals for bad debt—that is, copayments and deductibles those hospitals are unable to collect from Medicare beneficiaries.

CBO estimates the bill would increase Medicare spending by $5 million in fiscal year 2000, but would reduce spending by $5 million over the 2000–2004 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply. The bill would impose no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

Estimated cost to the Federal Government: The estimated budgetary impact of this bill is shown in the following table. The costs of this legislation fall within budget function 570 (Medicare).

	By fiscal years, in million of dollars—				
	2000	2001	2002	2003	2004
CHANGES IN DIRECT SPENDING					
Medicare Subvention—VA	(1)	20	25	20	5
Medicare Subvention—DoD	5	25	5	0	0
Bad Debt	(1)	−5	−30	−35	−40
Total	5	40	0	−15	−35

[1] Cost or savings of less than $500,000.

Note.—VA=Department of Veterans Affairs, DoD=Department of Defense.

Basis of estimate

Medicare subvention for veterans

Under current law—with a few exceptions, such as the existing demonstration project of Medicare subvention for DoD—Medicare does not pay federal providers of health care services when they furnish Medicare-covered services to Medicare enrollees. The bill would require the establishment of a demonstration project in which Medicare would pay VA for services furnished to certain Medicare-eligible veterans at up to eight VA medical facilities. In general, veterans who are not poor or do not have a compensable service-related disability would be eligible to participate in the project. Medicare would pay on a capitated basis for participating veterans at half of the sites and on a fee-for-service basis at the remaining sites.

The capitated component of the demonstration would operate for up to three years during the 2000–2003 period, and the fee-for-service component would operate for up to three years during the 2001–2004 period. Total Medicare payments to VA would be limited to $150 million over the course of the demonstration. The bill would require that VA maintain its level of effort in terms of the amount VA spends for Medicare-covered services provided to eligible but nonparticipating veterans at the demonstration sites. However, that maintenance of effort requirement does not encompass Medicare-covered services that VA provides to Medicare-eligible veterans who are not eligible to participate in the demonstration because they do not live near a demonstration site, are poor, or have a compensable service-related disability.

CBO assumes that VA would reallocate resources to satisfy the maintenance of effort requirement for eligible but nonparticipating veterans at the demonstration sites, and that as a result, VA would provide less Medicare-covered care to Medicare-eligible veterans who do not live near a demonstration site, are poor, or have a compensable service-related disability. Thus, some of the care those veterans would receive from VA under current law would instead be furnished by providers in the community. CBO estimates that the provision would not have a significant effect on Medicare spending in 2000. However, the increase in Medicare spending for payments to community providers for services displaced from the VA would total $70 million over the 2000–2004 period.

Medicare subvention for military retirees

The Balanced Budget Act of 1997 established a Medicare subvention demonstration project for care furnished by DoD to military retirees. The bill would extend that project for one year—through 2001—and permit Medicare to pay DoD on a fee-for-service basis. (The current demonstration involves payment on a capitated basis only.)

The DoD demonstration also has a maintenance of effort requirement that is implemented on a site-specific basis, rather than on a system-wide basis. CBO expects that DoD would reallocate resources to satisfy the maintenance of effort requirement at the demonstration sites, and that as a result, DoD would provide less Medicare-covered care to Medicare-eligible military retirees who do

not receive care at a demonstration site. Thus, some of the care those military retirees would receive from DoD under current law would instead be furnished by providers in the community. CBO estimates that Medicare payments to community providers for services displaced from the DoD facilities would total $5 million in 2000 and $35 million over the 2000–2004 period.

Bad debt

Under current law, Medicare pays hospitals 55 percent of the amount of deductibles and coinsurance that hospitals do not collect from Medicare beneficiaries. The bill would reduce that proportion to 49 percent, beginning with cost reporting periods that begin during fiscal year 2000. That provision would not have a significant effect on Medicare spending in 2000, because most of the effect would be delayed until the cost reports for 2000 are settled, beginning in late 2001. CBO estimates that the change in bad debt payments would reduce Medicare spending by $110 million over the 2000–2004 period.

Pay-as-you-go consideration: The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the budget year, and the succeeding four years are counted.

	By fiscal year on millions of dollars—									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	5	40	0	−15	−35	−45	−45	−50	−50	−55
Changes in receipts	Not applicable									

Intergovernmental and private-sector impact: The bill contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

Previous CBO estimate: On May 29, 1998, CBO produced an estimate of H.R. 3828, the Veterans Medicare Access Improvement Act of 1998, as ordered reported by the House Committee on Ways and Means. That bill proposed a Medicare subvention program for the VA that differed in significant ways from this proposal. That cost estimate contained an extensive discussion of issues involved in measuring, monitoring, and enforcing a maintenance of effort requirement. The current analysis uses the methods described in that estimate to calculate the increase in Medicare spending due to erosion of the VA's and DoD's level of effort.

Estimate prepared by: Tom Bradley.

Estimate approved by: Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

IV. VOTE OF THE COMMITTEE

In compliance with section 133 of the Legislative Reorganization Act of 1946, the Committee states that the original bill was ordered favorably reported by voice vote.

V. REGULATORY IMPACT

In compliance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee states that the legislation will not significantly regulate any individuals or businesses, will not impact on the personal privacy of individuals, and will result in no significant paperwork.

VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In the opinion of the Committee, it is necessary, in order to expedite the business of the Senate, to dispense with the requirements of paragraph 12 of rule XXVI of the Standing Rules of the Senate (relating to showing of changes in existing law made by the bill as reported by the Committee).

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