



THE SECRETARY OF HEALTH AND HUMAN SERVICES  
WASHINGTON, D.C. 20201

The Honorable Richard Cheney  
President of the Senate  
United States Senate  
Washington, D.C. 20510

MAR 13 2007

Dear Mr. Cheney:

There have been several health system reform proposals over the past few months including the Citizens' Health Care Working Group (Working Group) report and the report of the Medicaid Commission.

This transmittal contains the Administration's position on these proposals.

The Working Group report was submitted to the President and the Congress on September 29, 2006. The report is required by section 1014 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Public Law 108-173.

I appreciate the efforts of the Working Group in compiling their report and thank them for taking part in this effort. However, while we share many of the Working Group's goals for the U.S. health care sector, the Administration disagrees with the Working Group's recommendations on how these shared aspirations should be achieved.

The Medicaid Commission submitted their report to me on December 29, 2006 as required by directive. I appreciate the efforts of the Commission and thank them for their efforts and their report.

The Administration's proposals to expand access to affordable quality health insurance were put forward by the President in the State of the Union address and in his FY 2008 Budget. This approach to health care reform is based on making affordable health insurance available to every American through the power of individual choice, competitive markets and state-based innovation.

I look forward to continuing discussion with the Congress as to how we can work together to advance common goals of improving access, quality, and affordability of health care.

Sincerely,

MICHAEL O. LEAVITT

The Administration's Response to the Recommendations  
of the Citizens' Health Care Working Group and the  
Recommendations of the Medicaid Commission

**Background**

- The Citizens' Health Care Working Group (Working Group) was created by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Public Law 108-173, Sec. 1014.
- The Working Group was created to "engage in an informed national public debate to make choices about the services [Americans] want covered, what health care coverage they want, and how they are willing to pay for coverage."
- The result of the Working Group's community meetings and other activities were released in a June 1, 2006 report entitled *Interim Recommendations of the Citizens' Health Care Working Group*. Comments on the interim recommendations were accepted until September 1, 2006.
- The Working Group submitted its final recommendations in a report to the President on September 29, 2006.
- Part I of this Report to Congress provides the Administration's views and comments on the Working Group's recommendations.
- Part II of this Report to Congress contains the Administration's response to the Secretary's Medicaid Commission which was formed in May 2005 by Secretarial directive and reported to the Secretary on December 29, 2006.
- We also discuss details of the President's initiatives to make access to basic, affordable health insurance available to every American.

## **Part I. General Comments on the Citizen's Health Care Working Group Report**

The Working Group chose an approach based on mandates and government intervention rather than an approach emphasizing consumer choice and options. In reviewing the Working Group's report, we have major concerns with some of the recommendations.

- The Administration agrees in principle with many of the Working Group's aspirations for the U.S. health care sector. However, the Administration disagrees with the Working Group's specific recommendations with regard to how these shared aspirations should be achieved.
- The Administration agrees with the Working Group that increasing affordability and expanding access to health insurance is an important goal.. We believe that the President's health initiatives (including health savings accounts, the implementation of Medicare part D, proposals related to association health plans, implementation of benefit flexibility in Medicaid under the Deficit Reduction Act, and, most recently, the President's Affordable Choices Initiative and his proposal to equalize the tax treatment between employer-provided health insurance and insurance purchased in the nongroup market) offer the best way to achieve that goal. We are engaged in an active agenda designed to achieve many of the goals identified by the Working Group including:
  - ✓ Improving efficiency and quality by emphasizing Value-Driven Health Care and health information technology standards; and,
  - ✓ Fostering community health networks through the President's Health Centers Initiative.
- Major areas of disagreement include:
  - ✓ The establishment of a national commission to define a core health benefit—an idea that the Federal Government can choose the best set of benefits for all Americans;
  - ✓ Limits on patient choice through the development of a national core health benefit; and,
  - ✓ The lack of consideration of, or specific recommendations on, cost control and affordability.

### **Improving Quality of Care and Efficiency**

The President and Secretary Leavitt share a strong interest to promote quality of care and efficiency (Recommendation 5).

- A goal of the Administration is to shape the American health care sector into a system where doctors and hospitals succeed in delivering high value patient care.
- Presently, individuals often do not have the information they need to measure the value of the health care they receive. They do not know the price of their medical treatments, nor can they evaluate the quality of the providers who deliver their medical care.
- On August 22, 2006, President Bush signed an Executive Order (EO) to help increase the transparency of America's health care system - empowering Americans

to find better value and better care. This EO directs, to the extent permitted by law, Federal agencies that administer or sponsor Federal health insurance programs to:

- ✓ Adopt and implement interoperable health information technology as systems are upgraded;
  - ✓ Increase transparency in the quality of health care;
  - ✓ Increase transparency in the price of health care; and,
  - ✓ Give consumers and providers incentives to care why all of these things are important.
- The Administration is promoting Value Driven Health Care (VDHC)—an initiative designed to improve the quality and affordability of health care. VDHC includes four cornerstones (health information technology standards, quality standards, price standards, and incentives) based on the following principles.
    - ✓ Consumers deserve to know the quality and cost of their health care. Health care transparency provides consumers with the information necessary, and the incentive, to choose health care providers based on value.
    - ✓ Providing reliable cost and quality information empowers consumer choice. Consumer choice creates incentives at all levels, and motivates the entire system to provide better care for less money. Improvements will come as providers can see how their practice compares to others.
    - ✓ To date, over 600 employers, governments, and other purchasers of health care goods and services representing 85 million Americans have agreed to adopt the President's VDHC Initiative.
    - ✓ Eighty of America's largest 200 corporations have signed on to VDHC. Twelve states' governors have signed VDHC Executive Orders. Eight State health plans for employees have signed on to VDHC.
  - The Administration launched a health information technology initiative with the establishment of the Office of the National Coordinator for Health Information Technology in 2004.
    - ✓ This initiative lays the groundwork to provide electronic health records for Americans, while protecting their right to privacy.
    - ✓ This initiative supports the adoption of e-prescribing and electronic health records to facilitate adoption of interoperable health information technologies by hospitals, physicians, and other health care providers for improving quality and safety for all Americans.
    - ✓ Public-private collaboration is already beginning to show results. Accomplishments include: (1) recommendations on interoperability specifications between software systems; (2) encouraging adoption of health IT through certification of outpatient electronic health record (EHR) products meeting base-line criteria for functionality, security, and interoperability; (3) increased market focus on integrating health IT with value-drive health care; (4) changes in regulation to allow donation of health IT and training services between providers; and, (5) recommendations presented to the Secretary of Health and Human Services on how to move toward an electronic environment in the areas of consumer empowerment, chronic care, electronic health records, and bio-surveillance.

- ✓ Fifty-five office-based electronic health record products have now been certified by the Certification Commission for Health Information Technology seal. This is the main public-private body for certification of electronic health record products that meet specific criteria and standards.
- Through agencies such as the Agency for Healthcare Research and Quality (AHRQ) and the Centers for Medicare and Medicaid Services (CMS), the Department of Health and Human Services (HHS) has initiated efforts to improve the quality, safety, efficiency, and effectiveness of health care for all Americans.
  - ✓ AHRQ has promoted evidence-based practice in everyday care through establishment of Evidence-based Practice Centers (EPCs).
  - ✓ In 2001, CMS began the Quality Initiative to assure quality health care for all Americans through accountability and public disclosure. This initiative has included quality initiatives for nursing homes, hospitals, home health, and physicians' offices.
  - ✓ CMS has instituted and expanded a program of incentives utilizing differential payment updates for hospitals and home health agencies that report data to CMS for specific patient quality measures. This program was authorized under the Medicare Modernization Act of 2003 (MMA) starting with a hospital reporting requirement for 10 quality measures. The Deficit Reduction Act of 2005 (DRA), has allowed CMS to expand the hospital program to 21 measures for FY 2007. HHS is also developing a plan to implement a value-based purchasing program for Medicare hospital payments beginning with FY 2009.

### **National Core Benefits**

The Administration does not support the establishment of a public/private Commission to define a set of national core benefits and services, nor does it agree that core benefits or services should be defined for all Americans (Recommendation 4). Rather, the Administration believes that every American should have access to a basic, affordable, private health insurance plan. Market competition among private plans is proving to provide affordable health care that meets consumer needs better than mandated benefits.

- The Administration believes it would be impossible for a federally appointed board to define a single benefit package that is able to address the diverse needs of Americans in their different income, family, geography, and health circumstances.
- Attempts to constrain consumer choice, such as defining a standardized benefits package, are counter to the market-based solutions supported by the Administration.
- A nationally determined set of core health benefits would place important decision-making about a person's health care in the control of Federal appointees, rather than allowing the consumer to choose the benefits that best meet their needs.
- As we saw with the successful implementation of Medicare part D, a government-run "one size fits all" benefit design is neither necessary nor preferred by consumers. For example, more than 90% of part D enrollees chose a plan other than the standard part D benefit.

## **Expanding Access**

The Administration agrees with the need to expand access to basic, affordable health care, but proposes to do so through market-based approaches that have been a key part of the Administration's health care proposals over the past six years (Recommendation 1).

- The President's Affordable Choices Initiative will help make basic private health insurance available in a budget neutral manner. The Initiative would redirect institutional subsidies to help states make basic private health insurance available to low-income and hard-to-insure Americans to help them purchase health insurance.
- The President proposes a standard tax deduction for health insurance—similar to the standard tax deduction for dependents—equal to \$15,000 for families and \$7,500 for individuals. The deduction would be available to anyone who purchases insurance coverage – in the employment setting or in the non-group market. This proposal provides for equitable and fair tax treatment of insurance; an immediate incentive to all Americans to purchase coverage, particularly for those Americans who do not receive insurance coverage through their jobs.
- Health Savings Accounts have significantly expanded access to previously uninsured Americans. At least three million Americans take advantage of HSA's by enrolling in HSA-eligible health coverage; recent improvements made in the Tax Relief and Health Care Act may increase the number of Americans with an HSA.
- Expanding access can best be achieved by harnessing market forces to reduce health care prices, such as through Association Health Plan legislation, and at the same time preserve America's international leadership in medical innovation.
- The Administration is transforming health care through incentives, improved information for consumers on health care price and quality, and health information technology. Keeping medical costs competitive by improving health care price and quality transparency is critical to increasing access to health care services and insurance.
- The addition of a Medicare prescription drug benefit has provided access to prescription drugs for Medicare beneficiaries, and 39 million Medicare beneficiaries now have access to prescription drug coverage through Medicare part D or another source.
- The Administration proposes medical liability reforms to limit costly and frivolous lawsuits. These lawsuits waste scarce health care resources, increase health care costs, and drive doctors out of business.

### **Community Health Networks**

The Administration agrees with this recommendation and is leading the way in developing and expanding integrated public/private community networks of health care providers (Recommendation 3).

- The Administration is leading an initiative (the President's Health Centers Initiative) to increase health care access in the nation's most needy communities. Through health centers, affordable primary and preventative health care will be made available to over 16 million uninsured and underserved people in FY 2008.
- Begun in 2001, this initiative will improve health care access for 1,200 communities through the support of new or expanded health centers. This expansion complements the President's efforts to increase health insurance coverage in private and public insurance programs.

### **Guarantee Financial Protection Against High Costs**

The Administration supports the principle of taking care of our most vulnerable citizens while encouraging individuals to take financial responsibility for their health care costs (Recommendation 2).

- Society has already made the decision that sick or injured persons will be treated and that if a person is elderly, poor and disabled, pregnant, or a child needing protection, government has developed means of assuring access to and payment for health care.
- The Administration believes that costs can and should be kept down, and this can be better achieved through defined contributions rather than through defined benefits.
- One example of the Administration's approach to keeping costs down is the Medicare Prescription Drug benefit. Relying on private sector price negotiation, this benefit has lowered enrollee costs dramatically through a market based approach and consumer choice. The average monthly premium for a Medicare part D plan in 2007 is \$22, far less than the \$37 per month estimated at the time that the MMA was enacted.

### **Restructure End-of-life Services**

This Administration recognizes the need to identify the best way to provide end-of-life care as more Americans live longer lives (Recommendation 6).

- HHS has undertaken a review of the advance care planning process, including advance directives, which enables an ongoing dialogue among providers, patients, and families, and promotes flexible policies that are accessible to everyone.
- The Department of Veterans Affairs (DVA) has made a significant effort to improve the provision of palliative and end-of-life care to our nation's veterans in the DVA's clinical settings.

## **Part II. General Comments on the Medicaid Commission's Final Report and Recommendations**

The Administration supports many of the themes and recommendations of the Medicaid Commission's final report. The President's Affordable Choices initiative is consistent with the Commission's recommendations to provide access to health insurance to the uninsured, which will ensure that those individuals do not default into Medicaid.

- The Administration agrees wholeheartedly with the Medicaid Commission's core assumption, that "fundamental reform is needed in order to ensure the long-term sustainability of the Medicaid program." States now spend more on Medicaid than on education, and states are asking for the flexibility to develop reforms that meet the needs of their citizens.
- Underlying the Commission's recommendations are the following core principles:
  - ✓ States need flexibility to address the unique challenges in each state;
  - ✓ Investing in quality will yield returns in positive health outcomes;
  - ✓ Focusing on personal responsibility and rewarding healthy behaviors will lead to a more efficient program; and,
  - ✓ Encouraging beneficiary participation to ensure that health care decision-making is in the best hands—the individual receiving care.
- These are principles that the Administration fully supports and that are at the core of Administration policy and initiatives, such as the President's Affordable Choices Initiative, and the Secretary's Value-Driven Health Care Initiative.
- The Commission has clearly laid out recommendations to reform the Medicaid program, preserving the safety-net for low-income and disabled individuals, while allowing states to better control Medicaid spending.

### **Long-Term Care Recommendations:**

- The Commission focused on two major components to the challenge of making sure that all Americans have access to long-term care services:
  - ✓ Ensuring that individuals adequately plan and prepare for their long-term care and retirement needs, and
  - ✓ Ensuring that Medicaid policy provides that individuals are served in the least restrictive setting possible.
- The Administration has been promoting long-term care planning and preparation through the Long-Term Care Consumer Awareness Campaign as well as the Long-Term Care Partnership Program.

- The Administration has been working to ensure that Medicaid long-term care services are provided in the least restrictive setting possible. The sustained focus on the President’s New Freedom Initiative and the Money Follows the Person Initiative continually move us closer to that goal. Additionally, the Deficit Reduction Act (DRA) now allows states to offer Home and Community Based Services without a waiver. This is a multi-pronged strategy to ensure that individuals’ preferences are respected and to reduce any “institutional bias”.

**Benefit Design Recommendations:**

- The Administration agrees with the Commission’s recommendation to support greater state flexibility to design benefit packages to meet the needs of specific populations. Additionally, the Administration supports the recommendation to reward beneficiaries who make prudent purchasing, resource-utilization, and lifestyle decisions. This is in the spirit of the Secretary’s Value-Driven Health Care Initiative, which seeks to make price and quality more transparent for the consumer and to align incentives to reward prudent purchasing of health care.
- The Deficit Reduction Act of 2005 (DRA) gives states flexibility to improve their Medicaid programs. States now have the ability to use cost sharing, benefit flexibility through benchmark plans, and other tools to modernize Medicaid. The DRA enables states to increase affordability while expanding health insurance coverage for the uninsured. It also preserves EPSDT services for children under the age of 21 enrolled in the Medicaid program.

**Eligibility Recommendations:**

- Among the Commission’s recommendations on eligibility is a recommendation to provide new options for the uninsured to obtain private health insurance. The Administration strongly supports this concept in a manner that is budget neutral to the Federal Government.
- The report also includes a recommendation to allow states to “*consolidate and/or redefine eligibility categories without a waiver, provided it is cost-neutral to the federal government.*” The recommendation makes clear that no mandatory eligibility categories should lose coverage. While the Administration supports state innovation, adequate safeguards would need to be in place to ensure that no mandatory eligibility groups lose coverage. In addition, cost neutrality will need to be consistent with the Administration’s current principles.

**Health Information Technology Recommendations:**

- The Commission had a number of recommendations to promote investment in interoperable health information technology including the adoption of electronic health records for Medicaid beneficiaries. The Administration continues to support the adoption of Health Information Technology as a normal cost of doing business to ensure that patients receive high-quality care while protecting their privacy.

- The Secretary fully supports encouraging private investment in and adoption of, interoperable health information technology, including electronic health records-- a cornerstone of the Value-Driven Health Care Initiative. The Office of the National Coordinator for Health Information Technology continues to lead the Department's efforts to identify and adopt standards to promote interoperability.
- As a result of Section 6081 of the Deficit Reduction Act, Congress authorized \$150,000,000 in new grant funds to States for the adoption of innovative methods to improve effectiveness and efficiency in providing medical assistance under Medicaid. Twenty-seven states have been awarded \$103 million for 33 proposal concepts. Many of the grants awarded support States in their movement to Health IT transformation.

### **Quality and Care Coordination Recommendations:**

- The Commission had a number of recommendations to improve the quality of care provided to Medicaid beneficiaries, as well as strategies for improving care for beneficiaries who are dually eligible for Medicaid and Medicare. The Administration supports developing further quality initiatives, and ensuring that individuals who are dually eligible for Medicare and Medicaid have coordinated acute and long-term care.
- Many of the Commission's quality improvement recommendations are consistent with the Secretary's Value-Driven Health Care Initiative and the spirit of the President's August 22, 2006 Executive Order. In order to create a more efficient system the Administration believes that transparency in pricing and quality will encourage beneficiaries and other consumers to seek out the best value in the health care they receive.

### **Addressing the Challenge of the Uninsured**

While the Commission focused its recommendations on the Medicaid program and Medicaid beneficiaries, the report included recommendations to reduce the number of uninsured, thus diverting individuals who might have become eligible for Medicaid in the future.

Specifically the Commission recommended:

*“ ...allow states the option to offer premium assistance to allow buy-in to job-based coverage or to purchase other private insurance” and “The federal government should provide new options for the uninsured to obtain private health insurance through refundable tax credits or other targeted subsidies so they do not default into Medicaid.”*

These recommendations are generally consistent with the spirit of the President's Affordable Choices Initiative and his proposed standard deduction for health insurance; the interaction between both proposals helps make basic private health insurance readily available, and provides subsidies to individuals who cannot afford insurance.

- ✓ The Affordable Choice Initiative provides help for states to make available basic private health insurance for all Americans by redirection institutional subsidies to help low-income and hard-to-insure Americans to help them purchase health insurance.
- ✓ The President also proposes a standard tax deduction for health insurance that will level the playing field between employer-sponsored health insurance and the individual market – allowing more individuals to be able to afford health insurance.

By ensuring that private health insurance is readily available and affordable, we may reduce the number of individuals who might otherwise become Medicaid beneficiaries. This will preserve the Medicaid program as a sustainable safety net for those who are most vulnerable, namely disabled and elderly individuals.