

August 23, 2013

Chairman Dave Camps
House Ways and Means Committee
1102 Longworth House Office Building
Washington D.C. 20515

Dear Chairman Camp,

Thank you for the fine work your Committee is undertaking to lay out bipartisan proposals for entitlement reform. We strongly believe in the importance of bringing long-term entitlement spending under control and doing so in a bipartisan fashion.

Your recent discussion draft of the President's proposals, including modernizing Medicare cost sharing requirements and expanding income-relating of Medicare premiums, highlights areas for potential bipartisan agreement. However, we would respectfully encourage you to consider more aggressive reforms of Medicare cost sharing rules than the piecemeal approach included in your discussion draft and to address first dollar coverage by supplemental insurance plans. In particular, we believe there could be bipartisan support for an overhaul of cost sharing rules to establish a single deductible and copayment for Part A and Part B and provide a limit on total out of pocket expenses along with limits on Medigap and other supplemental plans as part of a comprehensive deficit reduction plan. We also believe that such a plan could include robust protections for low-income beneficiaries.

There is growing bipartisan support for modernizing Medicare cost-sharing rules by streamlining the Medicare benefit, offering catastrophic protection, and more efficiently targeting Medicare dollars. Numerous proposals to reform Medicare's cost-sharing rules have been put forth by experts across the spectrum, including: MedPAC, the Urban Institute, the Bipartisan Policy Center, the American Enterprise Institute, MIT professor Jon Gruber, and others. In addition, we have proposed cost-sharing reforms in the final report of the National Commission on Fiscal Responsibility and Reform, *The Moment of Truth*, and in the proposal we put forward earlier this year, *The Bipartisan Path Forward*.

Modernizing the Medicare benefit by reforming cost sharing rules would not only strengthen the financial state of Medicare, but would also improve Medicare's value for beneficiaries and make it easier to navigate and understand. Designed properly, cost-sharing reforms can achieve significant savings for the Medicare program and better target assistance and reduce Medicare premiums by limiting overutilization of care while also providing greater protection from risk of catastrophic health care costs and reducing total out-of-pocket spending over the lifetimes of most seniors.

Our proposal would replace current cost-sharing rules with a new simple regime that calls for more "skin in the game" for first-dollar coverage, offers better protections against catastrophic costs,

provides important low-income protections, and discourages the use of costly supplemental plans. It would restructure the Medicare benefit by replacing the separate deductibles for inpatient and outpatient services with a single combined deductible, establish uniform coinsurance requirements for all services, and provide an out-of-pocket limit for catastrophic health costs. In order to provide greater protections for low income and other vulnerable beneficiaries, *The Bipartisan Path Forward* recommended income-related out-of-pocket limits and lower deductibles for low-income beneficiaries. Both the reformed cost sharing rules and new out of pocket protections would apply to current as well as new beneficiaries in order to avoid complexities and inequities from having different rules for seniors currently on Medicare and those who become eligible in the future.

The Bipartisan Path Forward called for net savings of \$90 billion from reforms of Medicare cost-sharing rules and supplemental plans. While the exact parameters would need to be worked out with CMS and CBO, we believe this reform can and should be designed to hold constant average out-of-pocket costs (including premiums) so that seniors are no worse off financially in a given year and have more protection from risk over their lifetime, particularly those at lower income levels.

To complement reforms to the cost-sharing system, The Bipartisan Path Forward included measures to reduce the use of supplemental plans providing wrap-around coverage that cover most or all Medicare cost-sharing requirements. Our plan would restrict Medigap plans so that they are no longer able to provide first dollar coverage of costs within the Medicare deductible and can cover no more than half of the base Medicare co-insurance.

Our proposal would also apply this restriction to TRICARE for Life plans, which effectively provide Medigap to military retirees, and convert the wrap-around coverage provided to Medicare beneficiaries by the Federal Employees Health Benefit Plan for Medicare into a Medicare premium subsidy. Finally, the plan recommended imposing a surcharge on retiree health plans while offering an option for seniors to “cash out” and instead use that value to subsidize their Medicare premium.

The President’s budget proposed an alternative approach of applying a surcharge to the Part B premium for beneficiaries with Medigap policies in order to offset the externality of increased Medicare costs. While we believe that prohibiting Medigap plans from providing first dollar coverage would be a better approach for Medicare beneficiaries, the President’s proposal would be a positive step forward in addressing the increased costs of the Medicare program due to Medigap plans. Another approach worth considering would be to apply the limitations on first-dollar coverage to new Medigap policies only and apply a surcharge to beneficiaries who already have Medigap plans with first dollar coverage.

We have attached a report released by the Moment of Truth Project, which we co-chair, outlining the substantive justification for reforming Medicare cost sharing rules and analyzing various proposals that have been put forward.

On the issue of income relating Medicare premiums, *The Bipartisan Path Forward* recommended a less complicated and more equitable approach than the President’s proposal reflected in your discussion draft which would yield slightly more savings. Specifically, Our proposal would increase existing income related premiums by 15 percent and create a new lower income related premium, which would be a much simpler approach than creating new brackets within the current income stream as the President proposed. This new income related premium would begin at an income threshold low enough that close to 15 percent of the senior population would be subject to income related premiums. It would be possible to

achieve even greater savings by combining elements of the President's proposal with the approach included in *The Bipartisan Path Forward*.

Asking Medicare beneficiaries, especially those with greater financial means, to pay more for their care, and modernizing cost sharing rules should be part of any package to control Medicare spending in a comprehensive deficit reduction plan along with reductions in excess payments to providers, reforms of the Medicare delivery system and other changes in the Medicare program. Between the policies included in the President's budget, the proposals we put forward in the *Bipartisan Path Forward*, and other proposals, there are surely enough options to develop a package with enough bipartisan support to achieve significant savings in this area.

Thank you again for your extraordinary hard work on this vitally important issue. Please let us know how else we can be helpful.

Sincerely and respectfully,

Erskine Bowles
Co-Chairmen, National Commission on Fiscal Responsibility and Reform

Alan Simpson

Attachments: Modernizing the Medicare Benefit; A Closer Look At Medicare Cost Sharing