

**STATEMENT BY  
BUDGET COMMITTEE CHAIRMAN DON NICKLES  
REGARDING MEDICARE PRESCRIPTION DRUG BILL  
NOVEMBER 24, 2003**

MR. NICKLES: MADAM PRESIDENT, I RISE TO SPEAK ON THE MEDICARE BILL THAT'S BEFORE US. BUT FIRST LET ME COMPLIMENT A COUPLE OF THE COLLEAGUES THAT I'VE HAD THE PLEASURE OF WORKING WITH ON THIS BILL AND PARTICULARLY IN THE CONFERENCE COMMITTEE.

AND FIRST WOULD BE SENATOR GRASSLEY WHO IS LEADING THE SENATE CONFEREES AND I THINK DID AN OUTSTANDING JOB. I ALSO WOULD ECHO THAT FOR THE MAJORITY LEADER. THE MAJORITY LEADER SELDOM GETS INVOLVED IN A CONFERENCE. THIS MAJORITY LEADER, BILL FRIST, DR. BILL FRIST, HAS AN INTEREST IN MEDICARE AND HE WAS A VERY INFLUENTIAL MEMBER OF THE CONFERENCE.

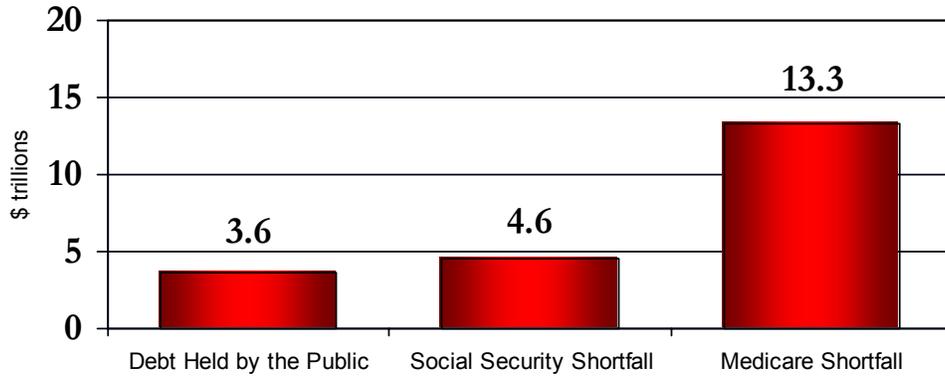
IN ADDITION, SENATOR KYL, SENATOR HATCH, SENATOR BAUCUS, AND SENATOR BREAUX, AND I WOULD ALSO INCLUDE CONGRESSMAN THOMAS. THIS WAS A VERY CHALLENGING CONFERENCE BETWEEN THE HOUSE AND THE SENATE.

THE BILL THAT WAS REPORTED OUT OF THE SENATE, I DIDN'T VOTE FOR. I THOUGHT IT WAS VERY HEAVY ON EXPENSE AND VERY LIGHT ON REFORMS. I DIDN'T REALLY THINK THAT IT WAS A SUSTAINABLE BILL. ONE THAT WE COULD AFFORD. ONE THAT OUR CHILDREN COULD AFFORD. AND SO I WORKED VERY DILIGENTLY, OR VERY AGGRESSIVELY TRYING TO COME UP WITH A CONFERENCE REPORT THAT WOULD MEET THE TEST, THAT WOULD PROVIDE BETTER BENEFITS.

I THINK THE PRESENT MEDICARE SYSTEM HAS CRUMMY BENEFITS. IT DOESN'T COVER A LOT OF THINGS THAT SHOULD BE COVERED. IT IS SO FAR BEHIND THE TIMES, I REALLY DID WANT TO MODERNIZE IT AND I ALSO WANTED TO ADD THE NEW BENEFITS IN A WAY THAT WOULD BE AFFORDABLE, THAT WOULD BE SUSTAINABLE.

THE PRESENT SITUATION IN MEDICARE, JUST TO GIVE PEOPLE A LITTLE THUMBNAIL SKETCH, AND THIS IS WITHOUT PROVIDING ANY NEW BENEFITS. THE TOTAL DEBT HELD BY THE PUBLIC IS \$3.6 TRILLION. SOCIAL SECURITY UNFUNDED LIABILITIES IS ABOUT \$4.6 TRILLION. MEDICARE IS ALMOST THREE TIMES AS MUCH. IT'S \$13.3 TRILLION. AND THAT IS WITHOUT ADDING A NEW BENEFIT WHICH MOST PEOPLE WOULD ESTIMATE TO BE IN THE \$6 TRILLION OR \$7 TRILLION RANGE.

**Social Security and Medicare Unfunded Promises  
Compared with Debt Held by the Public**

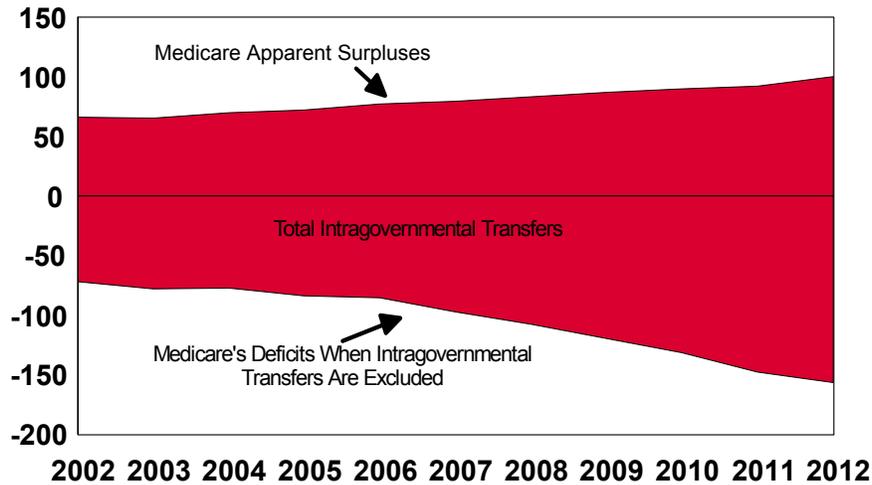


Source: President's Budget

SO YOU CAN SEE WE HAVE ENORMOUS CHALLENGES BEFORE US. THEN JUST LOOK AT THE PRESENT SITUATION. IN MEDICARE TODAY, THERE'S A LOT MORE MONEY GOING OUT THAN COMING IN. MEDICARE IS PRIMARILY FINANCED BY TWO THINGS: PAYROLL TAXES. 2.9% OF ALL PAYROLL, NOT CAPPED AT THE SAME AMOUNT THAT SOCIAL SECURITY IS, UP IN THE \$80,000-SOME, IT'S 2.9% OF ALL PAYROLL. THAT'S THE MONEY GOING IN. AND ALSO GENERAL REVENUE. WE SUBSIDIZE PART B.

IF YOU ADD IT ALL TOGETHER AND TAKE OUT THE INTERGOVERNMENTAL TRANSFERS, MEDICARE HAS NET DEFICITS RIGHT NOW OF -- AND LAST YEAR, 2002, OF ABOUT ALMOST \$70 BILLION. AND IT GETS A LOT WORSE, ABOVE \$150 BILLION. THAT'S PRESENT LAW. THAT'S WITHOUT ADDING A NEW BENEFIT.

**Medicare is suffering from large deficits  
before adding any new benefits.**



Source: CBO

SO MEDICARE IS IN VERY DIFFICULT FISCAL WATERS. A LOT MORE CHALLENGING THAN EVEN SOCIAL SECURITY. A LOT MORE CHALLENGING THAN ANY OTHER PROGRAM. BECAUSE DEMOGRAPHICALLY, YOU HAVE A LOT OF PEOPLE WHO ARE LIVING LONGER, HEALTH CARE EXPENSES ARE EXPLODING, AND YOU HAVE FEWER PEOPLE PAYING THE PAYROLL TAX. AND SO IT'S GOING TO TAKE A GREATER AND GREATER SHARE OF GENERAL REVENUE. MONEY THAT'S LEFT AVAILABLE COMING FROM TAXPAYERS.

AND SO I THOUGHT, WELL, LET'S PROVIDE BETTER BENEFITS. AND WHAT DO I MEAN BY THAT? MEDICARE DOESN'T PROVIDE DRUG BENEFITS. EVERYONE KNOWS THAT. BUT MEDICARE ALSO HAS UNAFFORDABLE DEDUCTIBLES, HAS A DEDUCTIBLE FOR A HOSPITAL OF \$840. AND I COMPARE THIS TO WHAT THE PRIVATE SECTOR OFFERS.

THE PRIVATE-SECTOR HEALTH CARE PLANS, IF YOU GO OUT AND BUY BLUE CROSS OR YOU BUY AETNA OR ANY PRIVATE PLAN, THEY DON'T HAVE AN \$840 DEDUCTIBLE FOR YOU TO PAY IF YOU GO IN THE HOSPITAL FOR ONE DAY. MEDICARE DOES.

AND ALL PRIVATE PLANS CERTAINLY SHOULD - I THINK MOST DO - THEY HAVE CATASTROPHIC. MEDICARE DOES NOT HAVE CATASTROPHIC. SO IF YOU'RE REALLY IN TROUBLE, IF YOU'RE IN THE HOSPITAL MORE THAN 150 DAYS, IT'S ALL ON YOU. YOU DON'T GET ANY HELP FROM MEDICARE.

I THINK THAT'S PATHETIC. THAT'S NOT A VERY GOOD BENEFIT. AS A MATTER OF FACT, IF YOU'RE IN THE HOSPITAL MORE THAN 60 DAYS, YOU HAVE TO PAY \$210 A DAY. IF YOU'RE IN THE HOSPITAL MORE THAN 90 DAYS, YOU HAVE TO PAY \$420 A DAY. SO IF YOU'RE REALLY SICK, IF YOU'RE REALLY IN TROUBLE, LOOK OUT, MEDICARE DOESN'T COME THROUGH.

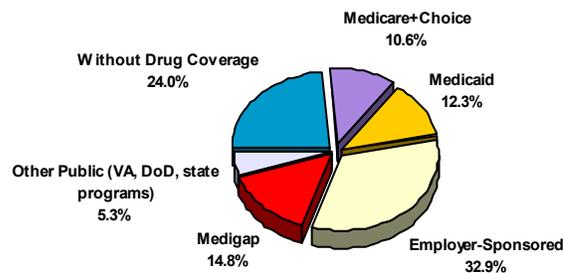
SO IT'S A PROGRAM THAT HASN'T BEEN MODERNIZED, FRANKLY REALLY MODERNIZED SINCE ITS CREATION IN 1965.

IT DOESN'T DO ENOUGH FOR PREVENTIVE CARE. IT DOESN'T OFFER PRESCRIPTION DRUGS. IT DOESN'T HAVE CATASTROPHIC. ITS DEDUCTIBLES ARE WAY TOO HIGH FOR HOSPITALIZATION. SO I THINK IT NEEDS SIGNIFICANT IMPROVEMENT.

I WANT TO PASS A MEDICARE BILL THAT WILL HELP SOLVE ALL THESE PROBLEMS. I WANT TO PASS A BILL THAT WILL PROVIDE DRUG BENEFITS. I THINK WE'RE WAY BEHIND THE TIMES. WE SHOULD BE DOING IT. BUT I ALSO WANT TO BE COGNIZANT OF THE FACT THAT IT'S IN REAL FINANCIAL TROUBLE, THAT IT'S NOT SUSTAINABLE IN ITS PRESENT FORM

AND I DON'T WANT TO BE ADDING NEW BENEFITS THAT WILL JUST ACCELERATE THE DAY TO WHERE IT COLLAPSES, WHERE IT'S NOT SUSTAINABLE. WHERE OUR KIDS ARE GOING TO BE COMING UP, WAIT A MINUTE, WHAT ABOUT THIS TAX?

## 76% OF MEDICARE BENEFICIARIES ALREADY HAVE DRUG COVERAGE



Source: CMS

NOTE: The data are projections for 2002 of the non-institutional Medicare population (39.5 million beneficiaries).

SOME PEOPLE SAY, WELL, IT'S NOT A TAX. THERE'S NOT A DIRECT TAX TO PAY FOR THE BENEFITS. BUT WHAT WE'RE DOING IS INCURRING ENORMOUS DEBT TO PAY FOR BENEFITS AND, FRANKLY, OUR KIDS ARE EITHER GOING TO BE PAYING FOR THAT IN THE FORM OF TAXATION TOMORROW OR THEY'RE GOING TO BE PAYING FOR IT IN INCREASED INTEREST RATE BECAUSE THE DEBT WILL INCREASE SUBSTANTIALLY UNDER THIS BILL.

THE BUDGET RESOLUTION WE PASSED THIS YEAR SAID WE SHOULD STRENGTHEN AND ENHANCE MEDICARE. THAT MEANS MAKE IT MORE SOLVENT, MAKE IT SUSTAINABLE, MAKE IT AFFORDABLE. UNFORTUNATELY, I'M NOT SURE THAT WE DID THAT UNDER THIS BILL.

I THINK THE BILL THAT WE HAVE BEFORE US, WE'RE SPENDING TOO MUCH TO COVER THE COVERED. AND WHAT DO YOU MEAN BY THAT? BECAUSE IF YOU LOOK AT THIS CHART, YOU FIND OUT THAT 76% OF SENIORS NOW HAVE PRESCRIPTION DRUG COVERAGE. BUT WE'RE GOING TO SPEND BILLIONS -- WE'RE GOING TO SPEND OVER HALF THE MONEY IN THIS BILL TO PROVIDE ASSISTANCE FOR THOSE PEOPLE THAT ALREADY HAVE -- PEOPLE THAT ALREADY HAVE DRUG CARE.

WE'RE GOING TO SPEND -- FOR EMPLOYER-SPONSORED PLANS, WE'RE GOING TO SPEND \$89 BILLION TO SUBSIDIZE EMPLOYERS SO THEY CAN CONTINUE PROVIDING HEALTH CARE BENEFITS, DRUG BENEFITS, FOR THEIR EMPLOYEES THAT THEY ALREADY DO. WE'RE GOING TO BRIBE THEM TO KEEP COVERING THE PEOPLE THAT THEY'VE ALREADY CONTRACTUALLY OBLIGATED TO DO. THIS IS A BIG BAILOUT, IN MY OPINION, FOR EMPLOYER PLANS, UNION PLANS. IT'S WAY TOO HIGH OF A SUBSIDY.

I KNOW AARP WANTED MORE MONEY. I KNOW SENATOR BAUCUS AND I -- AND SOME PEOPLE WERE CRITICIZING SENATOR BAUCUS, MR. HUNT IN THE "WALL STREET JOURNAL" CRITICIZED HIM AS A NEGOTIATOR. I TAKE ISSUE WITH THAT. HE WAS VERY SUCCESSFUL NEGOTIATOR. BECAUSE IN THE LAST FEW DAYS OF NEGOTIATING THE BILL, LAST SEVERAL -- WE SPENT MONTHS NEGOTIATING. AND HE -- SENATOR BAUCUS WAS A VERY EFFECTIVE NEGOTIATOR. HE KEPT WINNING. I KEPT LOSING. WE WERE ON OPPOSITE SIDES OF MANY, MANY BATTLES. AND I COMPLIMENTED HIM. I SAID, YOU JUST KEEP WINNING.

AND THEY GOT MORE MONEY FOR EMPLOYER SUBSIDIES, ANOTHER \$18 BILLION IN THE LAST FEW DAYS FOR EMPLOYER SUBSIDIES. WENT FROM \$71 BILLION TO \$89 BILLION BY MAKING IT TAX-FREE. HE ALSO GOT ANOTHER -- AN ADDITIONAL \$12 BILLION OR \$18 BILLION OF LOW-INCOME SUBSIDIES. THAT MAKES THE BILL MORE EXPENSIVE AND I THINK WILL MAKE UTILIZATION GO WAY UP. SO I COMPLIMENT SENATOR BAUCUS FOR HIS NEGOTIATIONS BUT I ALSO THINK IT MAKES THE BILL LESS SUSTAINABLE OR LESS AFFORDABLE FOR FUTURE GENERATIONS.

SO WE SPEND A LOT OF MONEY TO TAKE CARE OF EMPLOYER-SPONSORED. WE ALSO HAVE MEDICAID. AND WE ARE SPENDING -- IN THIS, WE HAVE LOW-INCOME SUBSIDIES IN THIS BILL I THINK TO THE TUNE OF LIKE \$190 BILLION-SOME. SO THE TOTAL PACKAGE, EVERYBODY SAYS, WELL, THIS PACKAGE IS A \$400 BILLION -- OR \$395 BILLION PACKAGE. IN REALITY, IT'S MUCH MORE THAN THAT. IN REALITY, THIS BILL IS CLOSER TO \$800 BILLION. AND -- AND IT NETS OUT ABOUT \$400 BILLION.

IT'S \$800 BILLION, BECAUSE WE HAVE \$507 BILLION IN DRUG BENEFITS BUT WE ALSO HAVE LOW-INCOME SUBSIDIES OF \$192 BILLION, AND WE HAVE EMPLOYER SUBSIDIES OF \$89 BILLION. YOU ADD THAT UP, IT'S ALMOST \$800 BILLION OF CHECKS THAT ARE GOING TO BE WRITTEN. FEDERAL GOVERNMENT'S GOING TO BE WRITING THOSE CHECKS.

NOW, THE FEDERAL GOVERNMENT WILL BE RECEIVING MONEY BACK IN THE FORM OF PREMIUMS FROM SENIORS, \$131 BILLION, A REACH-BACK OR CLAW-BACK FROM THE STATES. BECAUSE WE'RE ASSUMING MEDICAID -- WHICH IN MY OPINION WAS A SERIOUS MISTAKE, ONE THAT

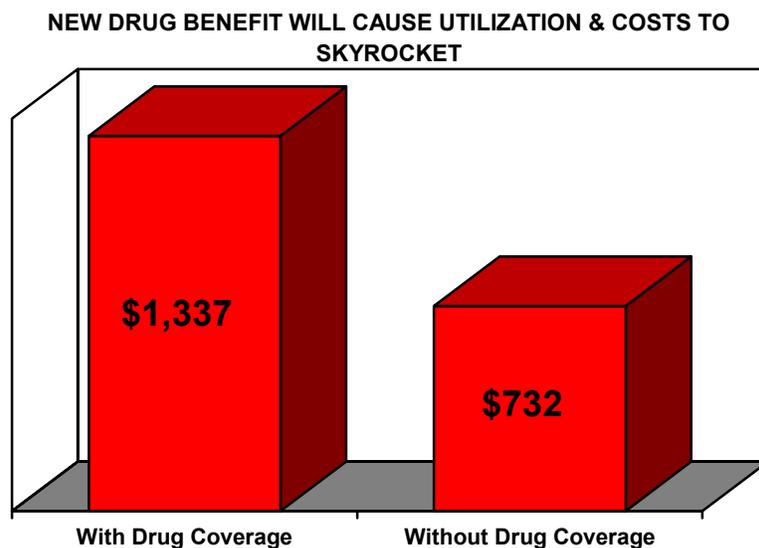
WAS OPPOSED BY THE ADMINISTRATION BUT CERTAINLY OPPOSE BY THIS SENATOR BUT WE WERE NOT SUCCESSFUL -- IT WAS NOT THE INTENTION OF THE SENATE TO ASSUME FEDERALIZATION OF MEDICAID. IT WAS PARTLY A STATE PROGRAM. IT IS NOW AN ALL FEDERAL PROGRAM WHEN THIS BILL BECOMES LAW. I THINK THAT'S A MISTAKE.

WE'RE GOING TO SUBSIDIZE LOW INCOME TO THE TUNE OF SOME \$192 BILLION IN THIS BILL. THAT IS A LOT. WE RECOUP SOME OF THE MONEY THAT WE WERE PAYING. NOW IT'S ALL MEDICARE SO THAT THE OFFSET WILL SAY WELL, WE'LL SPEND LESS MONEY IN MEDICAID BECAUSE WE'RE NOT GOING TO DO THAT IN THE FUTURE BUT WE'RE GOING TO MAKE IT ALL MEDICARE. THE NET EFFECT IS WE'RE GOING TO BE SPENDING \$800 BILLION, WE RECOUP ABOUT \$400 BILLION. SO THE NET COST TO FUTURE GENERATIONS IS ABOUT \$400 BILLION.

AND, YES, THAT MEETS THE BUDGET RESTRAINT THAT WE PUT IN, IN THIS YEAR'S BUDGET. BUT WE DIDN'T FINANCE THAT. WE DON'T PAY FOR IT. SO WE HAVE BENEFITS, FRANKLY, THAT ARE CERTAINLY OVERPROMISED AND UNDERFUNDED.

THEY'RE NOT FUNDED TO THE TUNE OF \$400 BILLION. THAT'S JUST ADDITIONAL DEBT. I HAPPEN TO THINK IT WILL BE A LOT MORE THAN THAT. I HAPPEN TO THINK THAT ONCE YOU END UP PAYING SOME BENEFITS, YOU'LL FIND THAT UTILIZATION WILL SKYROCKET.

THIS IS JUST WHAT C.B.O. HAS TOLD US. PEOPLE WITHOUT DRUG COVERAGE IN THIS AGE CATEGORY, WITHOUT ANY DRUG COVERAGE, THEY SPEND ABOUT \$732 ON THEIR DRUGS PER YEAR. IF THEY HAVE DRUG COVERAGE, THEY SPEND ABOUT DOUBLE THAT, \$ 1,337. I THINK THIS FIGURE WILL SKYROCKET.



THIS IS A FIGURE THAT SAYS WITH DRUG COVERAGE. I ASK MY MOTHER, DO YOU HAVE DRUG COVERAGE? YES. SHE BUYS IT WITH AARP. SHE PAYS ABOUT \$140 OR \$160 A MONTH IN PREMIUMS AND SHE HAS DRUG COVERAGE. I SAID, HOW MUCH IS YOUR DRUG COVERAGE? WELL, IT'S 50% OF WHATEVER SHE SPENDS UP TO \$1,000. SHE GETS \$500 IN DRUG BENEFITS FROM AARP.

WAIT A MINUTE, SHE PAYS ALMOST \$2,000 FOR THAT \$500. MAYBE THERE'S SOME OTHER BENEFITS IN THERE I'M NOT THAT AWARE OF. MY POINT IS A LOT OF PEOPLE HAVE DRUG COVERAGE BUT THEY ONLY HAVE A LITTLE DRUG COVERAGE.

UNDER THIS BILL THAT WE'RE PASSING NOW, I SAY IT MAY NOT BE SUSTAINABLE OR AFFORDABLE BECAUSE WE HAVE 36% OF ALL SENIORS WHO ARE GOING TO GET ENORMOUS BENEFITS AND THEY PAY ALMOST NOTHING. AND I KNOW, I'VE HEARD SOME COLLEAGUES SAY, WELL, WE SHOULD BE DOING THAT FOR EVERYBODY. WELL, LET ME JUST GIVE YOU AN EXAMPLE. AND I KNOW I -- I SAW AARP RAN AN AD TODAY, SAID "WHY SHOULD YOU VOTE FOR THIS BILL?" AND THEY HAD THREE OR FOUR REASONS.

ONE, IF YOU HAVE INCOME LESS THAN 100% OF POVERTY LEVEL, AND FOR AN INDIVIDUAL, THAT'S \$9,600. FOR A COUPLE THAT WOULD BE \$13,000. IF YOU'RE LESS THAN -- IF YOUR INCOME IS A COUPLE LESS THAN \$13,000, THIS IS THE BEST DEAL YOU HAVE EVER SEEN. BECAUSE ALL YOU HAVE TO PAY IS \$1 IF YOU'RE BUYING A GENERIC OR \$3 IF YOU'RE BUYING A BRAND-NAME DRUG, AND YOU HAVE UNLIMITED DRUGS, NO LIMIT, NO DEDUCTIBLE, NO COPAY OTHER THAN THAT \$1 AND \$3, NO PREMIUMS, NO DOUGHNUT HOLE, NO CATASTROPHIC. I MEAN, THERE'S UNLIMITED. THAT'S ALL YOU HAVE TO PAY IS \$1 TO \$3 FOR ALL YOUR DRUGS, NO -- IF IT'S \$5,000, \$10,000, YOU'RE COVERED.

AND IT'S ALMOST THE SAME IF YOU HAVE INCOME BETWEEN -- LESS THAN 135% OF POVERTY. THAT WOULD BE FOR INDIVIDUALS WITH \$13,000 AND FOR A COUPLE WITH \$17,600. IF THERE OR LESS, THEY HAVE THE SAME THING EXCEPT THEIR COPAY IS \$2 AND \$5. THERE'S NO DOUGHNUT HOLE. THERE'S NO CATASTROPHIC. THERE'S NO LIMITATION. THEY DON'T HAVE TO PAY PREMIUMS. THEY DON'T PAY \$35 A MONTH IN PREMIUMS. THEY'VE GOT A GREAT BENEFIT -- THEY'VE GOT A GREAT BENEFIT. MAN, THEY SHOULD CELEBRATING.

I'M KIND OF SURPRISED TO HEAR SOME OF OUR COLLEAGUES, PARTICULARLY ON THE OTHER SIDE, SAY, WELL, I CAN'T SUPPORT THIS BILL BECAUSE IT'S NOT A VERY GOOD DEAL. WELL, IF THEY'RE SO-CALLED CHAMPIONS OF THE POOR, THIS IS THE MOST GENEROUS FEDERALIZATION AND EXPANSION OF A GOVERNMENT BENEFIT IN U.S.

HISTORY. AND MAYBE THEY'RE IGNORING THE LOW-INCOME SUBSIDY. IT'S NOT INSIGNIFICANT. IT'S \$192 BILLION ACCORDING TO C.B.O..

I THINK IT IS SO MUCH MORE THAN THAT. I THINK WHEN YOU -- WHEN PEOPLE FIND OUT THAT THEIR ONLY COPAY IS \$1 OR \$3 OR EVEN \$5, UTILIZATION WILL SKYROCKET. THIS CHART WILL BE SO INACCURATE AND WE'LL FIND OUT. WE'LL HAVE A FEW YEARS AND WE'LL FIND OUT. BUT I THINK THIS WILL BE IN THE THOUSANDS.

PEOPLE WHO DON'T HAVE TO PAY MUCH -- IN OTHER WORDS, IF THE GOVERNMENT IS PAYING 90%-SOME-ODD OF IT, 95%, 97%, WHICH WILL BE THE CASE IN MANY OF THESE INCOME CATEGORIES, UTILIZATION WILL SKYROCKET. MAYBE I'M WRONG. WE'LL FIND OUT. I'M MAKING THIS STATEMENT FOR THE RECORD BECAUSE I THINK THIS BENEFIT'S GOING TO COST A LOT MORE THAN PEOPLE ESTIMATE.

I THINK UTILIZATION WILL SKYROCKET. FOR INDIVIDUALS THAT HAVE INCOMES LESS THAN \$14,500 OR AS A COUPLE, \$19,500. BETWEEN 135 AND 150 PERCENT OF POVERTY THE COPAY IS 15%. GOVERNMENT'S GOING TO PAY 85%. AGAIN, NO DOUGHNUT HOLE, NO -- WELL, THEY DO HAVE A PREMIUM, I THINK, OF \$50. STILL, AN ENORMOUS BENEFIT. ENORMOUS BENEFIT THAT WILL SKYROCKET.

PEOPLE THAT HAVE INCOMES ABOVE 150%, THEY HAVE A COPAY OF 25%. THEN YOU'RE GETTING INTO THE AREA OF WELL, THAT'S NOT QUITE AS GOOD AS WHAT THEY HAD IN THE PRIVATE SECTOR. AND SO MY POINT IS, FOR LOW-INCOME, FOR THAT 36% OF SENIORS, FOR ABOUT 15 MILLION SENIORS, THIS IS ONE GREAT PACKAGE. AND MY GUESS, IT WILL EXPLODE IN COST.

ANOTHER REASON WHY I THINK IT WILL EXPLODE IN COST, BECAUSE A LOT OF OUR COLLEAGUES ARE GOING TO SAY, WHATEVER WE PASS, THAT'S JUST THE BEGINNING. I THINK SENATOR KENNEDY ALLUDED TO THAT WHEN IT PASSED THE SENATE. I BELIEVE THAT'S WHAT AARP SAID. WELL, WE'LL TAKE THIS AND WE'LL EXPAND UPON IT.

HOW DO YOU EXPAND UPON IT? WELL, LET'S JUST FILL THAT DOUGHNUT HOLE. IN OTHER WORDS, THE BASIC BENEFIT, AFTER YOU GET PAST THE LOW-INCOME SUBSIDIES, THE BASIC BENEFIT GOES UP TO \$2,250. AND THEN ABOVE THAT AMOUNT, YOU HAVE TO BASICALLY SELF-INSURE. YOU PAY THE NEXT COUPLE THOUSAND DOLLARS BEFORE THE FEDERAL GOVERNMENT CATASTROPHIC KICKS IN.

WELL, A LOT OF PEOPLE WOULD SAY, LET'S JUST FILL THAT DOUGHNUT HOLE UP. THEY DON'T -- WE DON'T HAVE THAT DOUGHNUT HOLE IN THE PRIVATE SECTOR. WE SHOULDN'T HAVE IT IN THIS. WELL, IF

YOU FILL THAT UP, IN OTHER WORDS, GOVERNMENT EXPANDS ITS LIABILITY, THE COST OF THIS PROGRAM GOES UP BY THE HUNDREDS OF BILLIONS OF DOLLARS. HUNDREDS OF BILLIONS OF DOLLARS.

AND I HAVE NO DOUBT IN MY MIND THAT ONCE THIS PASSES, FUTURE CONGRESSES WILL BE WORKING TO FILL THAT DOUGHNUT HOLE. AND MY GUESS IS THEY'LL BE SUCCESSFUL.

MY GUESS IS THAT THEY'LL BE SUCCESSFUL IN INCREASING THE NUMBER OF PEOPLE ELIGIBLE FOR THESE ENORMOUS LOW-INCOME SUBSIDIES. DOESN'T HAVE TO BE 150%. AS A MATTER OF FACT, THE SENATE BILL WAS PASSED AT 160% OF POVERTY. AND SO I'M SURE THERE WILL BE AMENDMENTS YEAR BY YEAR TO INCREASE THAT LEVEL UP FOR THAT SUPER-GOVERNMENT BENEFIT. LET'S MAKE THAT ELIGIBLE UP TO \$30,000 OR \$40,000. SO THAT WILL BE HAPPENING.

I ALSO THINK THERE IS SIGNIFICANT SAVINGS -- AND I WAS INVOLVED IN THIS -- THIS CLAWBACK, A REACHBACK, WHERE WE TRY AND RECAPTURE A PORTION OF THE BENEFITS OR SAVINGS GOING TO STATES SINCE WE'VE ASSUMED MEDICAID. MY GUESS IS, AFTER THIS BECOMES LAW, STATES WILL BE LOBBYING US EXTENSIVELY. OH, YOU'RE TAKING TOO MUCH BACK. WE WANT THAT REDUCED. AND I'M AFRAID IN MANY CASES, THEY MAY WELL BE SUCCESSFUL. SO THAT COST WILL EXPLODE.

AS A MATTER OF FACT, I'LL JUST MAKE A PREDICTION. WITHIN A FEW YEARS, THE DOUGHNUT HOLE WILL BE ELIMINATED, THE REACHBACK BY STATES WILL BE REDUCED DRAMATICALLY, AND THE EXPANSION OF LOW-INCOME DEFINITION WILL BE ENLARGED TREMENDOUSLY.

SO THIS -- THE COST OF THIS BILL WILL MORE THAN DOUBLE. MORE THAN DOUBLE. AND THAT'S JUST MY GUESSTIMATE. I MAY NOT BE IN THE SENATE WHEN THAT HAPPENS. BUT MY GUESS IS IT WILL HAPPEN.

SO WHAT'S MY OTHER COMPLAINT ABOUT THE BILL? ITS EXPLOSIVE NATURE IN COST. I KNEW THAT IT WOULD COST A LOT. I KNEW THAT IT WOULD EXPLODE. SO MY -- ONE OF THE THINGS I REALLY WANTED TO WAS TO COME UP WITH SOME REFORMS THAT WOULD HELP MAKE THIS PROGRAM -- REFORMS THAT WOULD HELP MAKE THIS PROGRAM FOR SUSTAINABLE, MORE AFFORDABLE FOR THE FUTURE.

PRESENTLY WE HAVE A SYSTEM THAT IS REALLY BIFURCATED. WE HAVE -- MEDICARE HAS HOSPITALIZATION. THAT'S CALLED PART-A. IT HAS PART-B FOR DOCTORS. IT HAS NOW A NEW PART-D FOR PRESCRIPTION DRUGS. THEY AREN'T VERY WELL INTEGRATED.

THEN A LOT OF PEOPLE WILL ALSO BUY MEDIGAP. UNDER PRESENT LAW, THEY BUY "A" AND "B" AND THEN BUY MEDIGAP. SO IT'S NOT A VERY GOOD INTEGRATED SUPPORT. UNLIKE THE PRIVATE SECTOR.

THE PRIVATE SECTOR OFFERS THE PRIVATE-SECTOR ALTERNATIVE TO THE PRESENT MEDICARE SYSTEM, ONE THAT PEOPLE COULD LOOK AT AND SAY, WELL, WAIT A MINUTE, THIS WORKS BETTER. I THINK I'D RATHER BE IN THE EVERYDAY PRIVATE SECTOR-TYPE SYSTEM, THE SAME ONE THAT FEDERAL EMPLOYEES HAVE, THE SAME ONE THAT PRIVATE-SECTOR EMPLOYEES HAVE. THEY HAVE BETTER PLANS. THEY HAVE BETTER PACKAGES. IT'S MORE MODERN. IT'S NOT TIED TO A GOVERNMENT-CONTROLLED FEE-FOR-SERVICE SYSTEM THAT DOESN'T WORK.

IF YOU WANT TO BRAG ON FEE-FOR-SERVICE, WHY ARE WE SPENDING BILLIONS AND BILLIONS OF DOLLARS TO MAKE ADJUSTMENTS FOR DOCTORS AND HOSPITALS AND PROVIDERS BECAUSE GOVERNMENT HAS UNDERFUNDED THEM? SENATOR GRASSLEY HAS BEEN A CHAMPION FOR INCREASING ASSISTANCE TO RURAL AREAS, AND HE'S EXACTLY RIGHT.

THE PRESENT SYSTEM HASN'T WORKED VERY WELL. I WANTED TO COME UP WITH A MODERN SYSTEM WITH AN INTEGRATED BENEFIT THAT COULD INTEGRATE "A" AND "B" AND AVOID THE NECESSITY OF A MEDIGAP PLAN.

PEOPLE HAVE TO HAVE MEDIGAP BECAUSE MEDICARE DIDN'T PAY FOR A LOT OF BENEFITS. IT HAD TOO HIGH OF A DEDUCTIBLE, DIDN'T PAY FOR CATASTROPHIC. PEOPLE HAD TO BUY MEDIGAP. THEY SHOULDN'T HAVE TO DO THAT.

I WAS HOPING WE COULD COME UP WITH A GOOD, VIABLE, INTEGRATED SYSTEM. I'M AFRAID THAT MAYBE WE HAVEN'T QUITE ATTAINED THAT. I'M AFRAID THAT OUR REFORMS ARE REALLY NOT ADEQUATE FOR THE EXPLOSIVENESS OF THE BENEFIT THAT WE'RE LOOKING AT TODAY.

AS A MATTER OF FACT, IT WAS -- WELL, LET ME JUST TOUCH ON THE INTEGRATED BENEFIT. NOW WE'RE GOING TO SAY -- AND I'VE HEARD SOME PEOPLE SAY, WELL, THIS IS A RIP OFF BECAUSE WE'RE GIVING MONEY TO INSURANCE COMPANIES AND IT SHOULD BE DONE JUST BY THE GOVERNMENT.

WELL, I'VE ALREADY MENTIONED GOVERNMENT DOESN'T DO A VERY GOOD JOB IN PROVIDING THE BENEFITS IT PROVIDES TODAY. NOW

WE'RE TELLING THE PRIVATE SECTOR YOU COME IN AND OFFER PART-D. YOU OFFER PRIVATE PRESCRIPTION DRUG PACKAGE.

GUESS WHAT? NOBODY IN THE REAL MARKET RIGHT NOW OFFERS A STAND-ALONE DRUG BENEFIT. WE HOPE AND PRAY THEY WILL IN THE FUTURE. BUT IF THEY DO, THEY HAVE TO BASICALLY OFFER EXACTLY WHAT WE'VE TOLD THEM TO OFFER, AND THAT IS THE BENEFIT STRUCTURE, 75%-25%, UP TO \$2,250.

THERE IS THIS BIG DOUGHNUT HOLE. WE CALL IT TRUE OUT-OF-POCKET COST. THEN WE HAVE A GOVERNMENTAL, CATASTROPHIC, GOVERNMENT REINSURANCE, WHATEVER YOU WANT TO CALL IT, AFTER YOU SPEND \$3,600 OF YOUR OWN MONEY, GOVERNMENT INSURANCE WILL KICK IN AND AN INDIVIDUAL'S ONLY LIABILITY IS 5%.

THE PRIVATE INSURANCE IS NOT ABLE TO OFFER THAT ON THE REINSURANCE. THEY ARE ONLY ABLE TO OFFER THE BASIC BENEFIT UP TO \$2,250. BUT THEY ARE NOT ABLE TO OFFER BOTH. THEY ARE NOT ABLE TO SAY WE'LL ASSUME ALL OF PART-D AND COMBINE THAT WITH (A) AND (B) AND USE EFFICIENCIES BETWEEN THE SYSTEM, HAVING THIS INTEGRATED BENEFIT, MAYBE DOING SOMETHING BETTER IN HOSPITALIZATION OR DOCTORS, HAVE SOME SAVINGS AND OFFER MORE GENEROUS DRUG BENEFIT.

THEY'RE NOT ABLE TO DO THAT BECAUSE BY THIS LAW, BY THIS BILL THEY'RE REQUIRED TO MAINTAIN THIS TRUE OUT-OF-POCKET COST. AND I THINK THAT IS VERY UNFORTUNATE. IT REALLY KIND OF LOCKS IN AN INFLEXIBLE STRUCTURE.

WE'RE TELLING THE PRIVATE SECTOR WHO NOW OFFER BENEFITS FOR FEDERAL EMPLOYEES, FOR PRIVATE-SECTOR EMPLOYEES, THEY OFFER PRESCRIPTION DRUGS BUT THEY DO IT WITHOUT HAVING AN OUT-OF-POCKET COST OF \$3,600. WE'RE MANDATING THAT THEY HAVE THAT BEFORE THEY CAN GET INTO CATASTROPHIC. AND I FIND THAT TO BE VERY UNFORTUNATE AND VERY SHORTSIGHTED AND MAYBE EVEN UNWORKABLE.

IT DOESN'T REALLY TRANSCEND THE MOVEMENT TO THE PRIVATE SECTOR. IT DOESN'T TRUST, CAN WE COME UP WITH A PRIVATE-SECTOR MODEL? WE'RE DICTATING TO THE PRIVATE SECTOR -- YOU HAVE TO DO IT AS WE'VE DICTATED IT TO YOU, MAINTAIN THIS TRUE OUT-OF-POCKET COST OF \$3,600. BY DOING THAT I'M AFRAID WE'VE PUT IN A RIGIDITY THAT WON'T ALLOW IT TO WORK AS WE WOULD LIKE FOR IT TO DO.

WE DID NOT GET COST CONTAINMENT. WE TRIED. WE HAVE A PROVISION, MAYBE I SHOULD SAY WE HAVE MINOR COST CONTAINMENT.

WE DID PUT IN A PROVISION THAT SAYS, WELL, IF GENERAL REVENUE CONTRIBUTIONS EXCEED 45%, THEN THE PRESIDENT SHALL COME UP WITH A PLAN TO FIX IT. CONGRESS, YOU HAVE EXPEDITED PROCEDURES. NOTHING THAT MANDATES CONGRESS DO IT. WE TELL THE PRESIDENT HE SHOULD.

THIS IS YEARS AWAY AND I FIND THAT TO BE A LITTLE HOLLOW. AND I WANTED REAL COST CONTAINMENT. IT WAS OPPOSED BY MANY. PARTICULARLY ON THE DEMOCRAT SIDE, AND WE WEREN'T SUCCESSFUL IN GETTING THAT IN AND THAT'S UNFORTUNATE.

THERE ARE SEVERAL PROVISIONS IN THIS BILL THAT ARE GOOD. AND I WANT TO COMPLIMENT, AGAIN, CHAIRMAN GRASSLEY AND ALSO CHAIRMAN THOMAS.

WE DID GET IN HEALTH SAVINGS ACCOUNTS. IT'S NOT DIRECTLY RELATED TO MEDICARE, BUT I THINK IT WOULD HELP REFORM HEALTH CARE AS WE KNOW IT. PEOPLE WOULD ACTUALLY BE SPENDING THEIR OWN MONEY. I THINK THAT IS A VERY POSITIVE, GOOD, SIGNIFICANT CHANGE. AND IT WILL CHANGE PEOPLE'S BEHAVIOR. THAT'S ABOUT A \$6 BILLION OR \$7 BILLION CHANGE. SO THAT IS VERY POSITIVE.

SO I COMPLIMENT SENATOR GRASSLEY AND CHAIRMAN THOMAS ESPECIALLY FOR PUTTING THAT IN.

WE INCOME-RELATED PART-B PREMIUMS. SENATOR FEINSTEIN AND I WORKED ON THAT AMENDMENT ON THE FLOOR. WE DID INCLUDE A LOT OF THAT IN THE BILL, NOT EXACTLY AS WE PUT IT ON THE FLOOR. BUT WE PHASED IT IN. I THINK THAT'S A POSITIVE CHANGE.

BUT TO MY REGRET, IT PUTS MORE MONEY IN THE BILL AND BASICALLY WE SPENT THAT MONEY. BASICALLY WHAT INCOME RELATING MEANS IS WE'RE GOING TO HAVE LESS SUBSIDIES FOR HIGHER-INCOME PEOPLE.

PART-B HAS ALWAYS BEEN PAID FOR WHEN IT WAS CREATED 50% FEDERAL, 50% INDIVIDUAL. OVER THE YEARS THAT'S BEEN DECLINING TO WHERE NOW THE INDIVIDUAL ONLY PAYS 25%. THE FEDERAL GOVERNMENT PAYS 75%.

WHAT WE SAID, IF YOU HAVE INCOME \$80,000 UP TO \$100,000, EVENTUALLY YOU HAVE TO PAY 35%. IF YOU HAVE INDIVIDUAL INCOME ABOVE \$100,000 EVENTUALLY YOU GO UP TO 50%, WHERE IT USED TO BE. IF YOU HAVE INCOMES AROUND, MUCH HIGHER THAN THAT, YOU'LL HAVE -- YOU HAVE TO PAY 65% OR YOU HAVE TO PAY 80%. SO WE PHASE

UP. EVEN VERY WEALTHY PEOPLE STILL WILL GET A 20% SUBSIDY UNDER THIS PROVISION. I THINK THAT'S A GOOD REFORM.

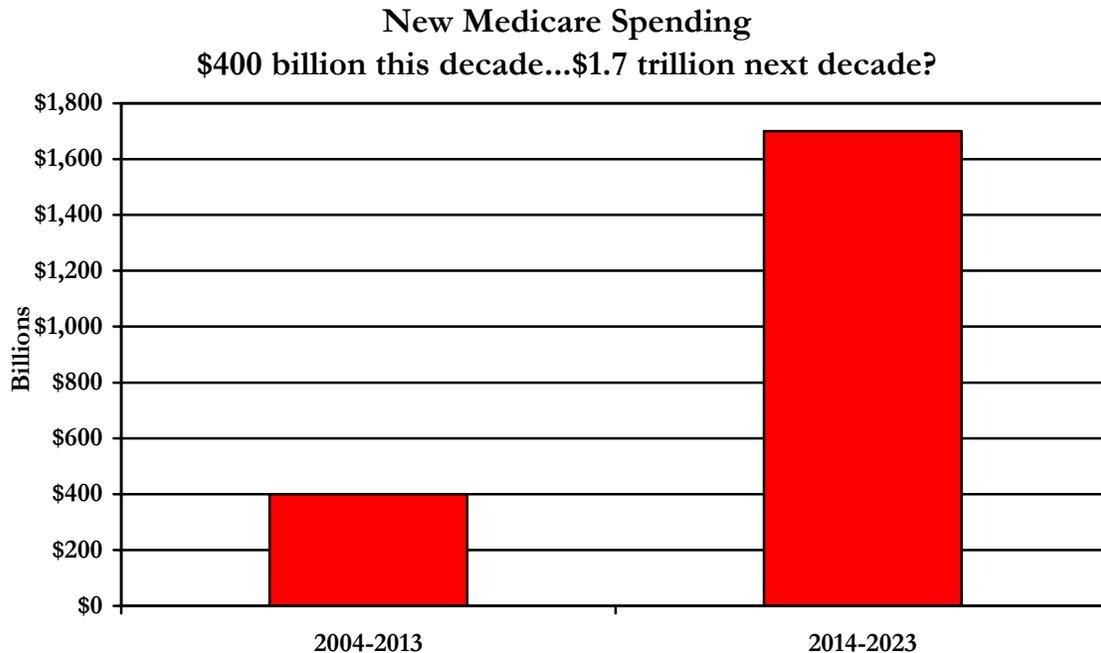
WE ALSO INDEX THE PART-B DEDUCTIBLE. IT'S BEEN \$100 FOR A LONG, LONG TIME. NOW WE INDEX THAT TO THE COST OF THE PROGRAM. THOSE ARE GOOD CHANGES. THEY WILL HELP IMPROVE IT.

UNFORTUNATELY WE TOOK THE CHANGES WE MADE THAT ACTUALLY WOULD RAISE MONEY AND WE ALSO EXPANDED THE BENEFIT FORMULA. IN THE LAST FEW DAYS OF NEGOTIATION WE EXPANDED THE BENEFITS AND THE SUBSIDIES BY ABOUT \$40 BILLION IN JUST THE LAST TWO OR THREE DAYS.

AND I HAVE NO DOUBT THAT IN FUTURE CONGRESSES WHEN WE SAY, WELL, WE'LL PAY 75% UP TO THAT \$2,250, THAT NUMBER'S GOING TO BE CLIMBING UP.

I HAVE NO DOUBT THAT PEOPLE WILL SAY WE NEED THE MOST GENEROUS SUBSIDIES, THE LOW-INCOME SUBSIDIES, THAT NEEDS TO APPLY TO A LOT OF OTHER PEOPLE. AND IT WILL INCREASE SPENDING DRAMATICALLY.

AND SO MY POINT IS, YES, WE MADE SOME REFORMS, BUT THIS PROGRAM MAY NOT BE AFFORDABLE OR SUSTAINABLE.



Staff estimates based on CBO data and CBO Director comments in San Francisco Chronicle, 11/13/2003

RIGHT NOW IT'S ESTIMATED TO COST \$400 BILLION OVER THE NEXT TEN YEARS. WELL, THE PROGRAM DOESN'T EVEN START FOR A COUPLE OF YEARS. SO THAT'S OVER THE NEXT EIGHT YEARS. THE C.B.O. DIRECTOR SAID IN THE NEXT TEN YEARS HE THOUGHT THIS PROGRAM MIGHT COST UP TO \$1.5 TRILLION TO \$1.7 TRILLION. AND THAT'S WITH THE BENEFITS STRUCTURE AS WE HAVE OUTLINED IT TODAY.

AS IT'S EXPANDED, THAT WILL BE MUCH MORE THAN \$1.7 TRILLION. WHEN THE DOUGHNUT HOLE IS FILLED, AND I PREDICT IT WILL BE, WHEN YOU HAVE THE NUMBER OF ELIGIBLES INCREASE DRAMATICALLY TO RECEIVE THE LOW-INCOME SUBSIDIES, REDUCE THE REACH-BACK OR CLAW-BACK FROM STATES, THIS \$1.7 TRILLION IN THE NEXT DECADE WILL PROBABLY BE MUCH, MUCH MORE THAN THAT.

AND SO THAT BRINGS ME TO MY FINAL COMMENT. CAN WE SUSTAIN IT? I'M NOT SURE. IT LOOKS TO ME LIKE WE ARE BUILDING A BRAND NEW DECK ON A HOUSE WITH A VERY UNSTABLE FOUNDATION. I THINK WE'RE EXPANDING THIS PROGRAM LIKE IT'S ON A SOLID FOUNDATION AND IT IS NOT. WE'RE NOT PAYING FOR THESE NEW BENEFITS. WE ARE SADDLING OUR FUTURE GENERATIONS WITH ENORMOUS LIABILITIES.

AND SO, MR. PRESIDENT, I -- AGAIN, I WANT TO CONCLUDE BY SAYING I HAVE THE GREATEST RESPECT FOR THE CHAIRMAN OF THE COMMITTEE. I HAVE THE GREATEST RESPECT FOR THE MAJORITY LEADER. I WANT THEM TO BE SUCCESSFUL. I WANT THE PRESIDENT TO BE SUCCESSFUL. I WANT SENIOR CITIZENS TO HAVE PRESCRIPTION DRUGS. I WANT THEM TO HAVE A MODERN MEDICARE SYSTEM. THIS BILL TAKES SOME STEPS IN THOSE DIRECTIONS, BUT MY CONCLUSION IS THAT THE BENEFITS GREATLY EXCEED THE REFORMS. AND WITHOUT NECESSARY REFORMS, I'M NOT SURE THIS PROGRAM WILL BE SUSTAINABLE IN THE FUTURE. SO IT'S MY INTENTION NOT TO SUPPORT THIS BILL.