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

FEB 15 2008

The Honorable Nancy Pelosi
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Speaker Pelosi:

Under the Medicare Prescription Drug, Improvement, and Modernization Act (Public Law 108-173), a Medicare funding warning is triggered whenever the Trustees determine, for two consecutive years, that more than 45 percent of total Medicare spending will be derived from general revenues within the current or following six years. In April 2007, the Trustees issued the first such warning. The President has assigned me the task of submitting proposed legislation to respond to this Medicare funding warning, and I am accordingly submitting the enclosed bill.

The Medicare program is on an unsustainable path, driven by two principal factors: projected growth in its per-capita costs, and increases in the beneficiary population as a result of population aging. Excess cost growth will not be brought under control until there is comprehensive reform changing Medicare's underlying structure. The funding warning is merely one near-term signal illuminating a small piece of a much larger problem. That problem is an unsustainable design in which government controls too many aspects of health care. In traditional fee-for-service Medicare, the government decides what treatments are provided and what the price should be. Until this system is modernized to offer greater choice and price accountability to individual consumers, the program's finances will remain on a path to insolvency.

In the meantime, we urge the Congress to pass the Medicare savings submitted with the President's fiscal year 2009 Budget. Enactment of these savings would improve Medicare's long-term outlook - reducing the 75-year unfunded obligation by nearly one-third. It would also

respond to the 2007 funding warning and maintain quality of care in a fiscally responsible way.

The enclosed proposal that I am submitting in response to the funding warning takes a three-step approach to strengthening Medicare. In developing these proposed reforms, we have been guided by the highly successful experience of the Part D program, which made a prescription drug benefit available to 44 million beneficiaries. By empowering individual consumers, projected Part D costs have decreased by $244 billion relative to original estimates for the 2004-2013 time period. Market-based principles must be further applied to Medicare to allow it to operate more efficiently, as it must for the long-term.

Title I of our proposal provides the Secretary of Health and Human Services the authority and responsibility to introduce principles of value-based health care in the Medicare program, consistent with the President's Executive Order 13410 of August 22, 2006. This title directs the Secretary to develop and implement proposals that reduce Medicare spending by increasing provider efficiency and encouraging beneficiaries to be wise health-care consumers. The specific elements included in the legislation are:

- Improved health information technology, including electronic medical records;
- Transparency of pricing information;
- Transparency of quality information; and
- Incentives for providers to deliver, and beneficiaries to choose, high-quality, low-cost health care.

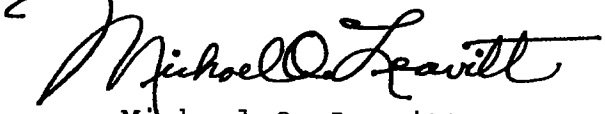
Title II of the proposed legislation would implement the President's medical liability reform agenda. To address the rising cost of health care, we must have a rational medical liability system. Our courts are littered with junk lawsuits. The current medical liability system encourages defensive medicine, which raises the costs of Medicare, Medicaid, Veterans Affairs, and other Federal health-care programs by an estimated $28 billion per year (and national health care costs by $60-$100 billion). The medical liability crisis has resulted in 1,500 counties in the United States that do not have an obstetrician-gynecologist. This legislation would take the first steps to addressing this growing crisis.

Finally, Title III of the proposed legislation would provide for income-relating the Part D premium. This provision was contained in the President's most recent two Budgets and would save over $900 million in 2013 and nearly $3.2 billion over five years.

This legislative package, particularly if enacted in concert with the President's Budget, would take the first step of responding to the funding warning in the Trustees' 2007 report. Perhaps more importantly, it would begin to address the long-term challenge and lay the foundation for the comprehensive Medicare reforms that are necessary to strengthen and improve the program for future generations. Accordingly, we urge the Congress to promptly pass the proposed legislation.

The Office of Management and Budget advises that the transmittal of this legislation is in accord with the President's program.

Sincerely,



Michael O. Leavitt

Enclosure