April 11, 2013

For the Record
House Energy & Commerce Committee, Health Subcommittee

Testimony by Josh Nassar, Legislative Director, International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW)

This testimony is submitted on behalf of the International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW) in connection with the hearing that will be held by the Subcommittee on Health of the House Energy & Committee on April 11, 2013 on the subject of: "Strengthening Medicare for Seniors: Understanding the Challenges of Traditional Medicare's Benefit Design." The UAW represents over 1.2 million active and retired workers in the auto, aerospace, education and public sectors across the United States. About two thirds of our retired members receive their primary health care coverage from Medicare. Many of these retirees also receive supplemental health care benefits from their former employers or from Voluntary Employee Beneficiary Associations (VEBAs) that have resulted from court-ordered settlement agreements.

The UAW recognizes the need to modernize and rationalize the benefit package provided under Medicare. In particular, it would be important to update and simplify the deductibles, co-insurance and other cost sharing requirements. This could make it easier for retirees to understand these cost sharing requirements. It also could ease the administrative burdens both on Medicare and on employers/VEBAs that provide supplemental coverage.

The UAW also strongly supports the addition of catastrophic coverage under Medicare. This has long been a glaring omission in Medicare. Providing protection against catastrophic medical expenses would help seniors who would otherwise face potentially devastating costs due to serious illnesses.

However, the UAW is concerned that the MedPAC proposals for changing the Medicare benefit package would impose substantial additional cost sharing on most seniors. We understand that the MedPAC proposals are intended to maintain **in the aggregate** the same level of cost sharing as the traditional Medicare benefit package. But in order to pay for the catastrophic protection for a small number of seniors, this means the MedPAC proposals will substantially increase the cost sharing that will have to be borne by most beneficiaries.

The UAW opposes this shifting of substantial new costs to most seniors. In 2010, half of all Medicare beneficiaries had annual incomes below $22,000 (200% of the federal poverty level). Medicare households have a lower average budget than the typical household ($30,818 vs. $49,641 respectively), but devote a substantially larger share of their income to medical expenses than does the average household (14.7% vs. 4.9%

respectively). Thus, many seniors simply cannot afford the cost sharing implicit in the MedPAC proposals, and would experience significant hardship if they had to pay for these additional costs. Some UAW retirees could see their income reduced by up to a quarter if they had to pay the cost sharing proposed by MedPAC.

The UAW also is skeptical that this increase in cost sharing for most seniors would be effective in restraining the growth in health care spending. To begin with, most retirees already are paying significant health care costs, and thus have substantial "skin in the game." Furthermore, because most health care expenditures are incurred by a small percentage of the sickest individuals, increasing cost sharing for the majority of persons will not have any impact on the largest component of health care costs. In fact, increasing cost sharing for persons with chronic conditions may be counterproductive, as some seniors would delay getting needed treatment and as a result, end up incurring higher expenditures for costly hospitalizations and greater use of emergency department services for issues that could have been dealt with in their doctor's office. Instead of trying to control utilization by shifting costs to individuals, it makes more sense to focus on providing incentives for health care providers to deliver care based on quality rather than quantity. The reforms contained in the Affordable Care Act have already started to make progress in this direction. The UAW submits that we should be redoubling and accelerating those efforts, rather than shifting more costs to seniors.

The UAW is particularly troubled by the part of the MedPAC benefit proposal that would increase the cost sharing for inpatient hospital stays to $750 per stay. This would impose significant hardship on many seniors. And it would have little impact on utilization and health care costs, since providers rather than individuals normally make the decision to admit someone to a hospital.

The UAW also opposes the MedPAC proposal to restrict supplemental "Medigap" coverage for seniors, and similar proposals made by other parties. Sometimes these proposals are designed as an outright prohibition on so-called "first dollar" coverage. Sometimes they are structured as a surcharge on the Part B premiums paid by seniors, or as a surcharge/excise tax on the supplemental policies themselves. Whatever the structure of the proposals, the net effect is to expose seniors to substantial additional health care costs. In our judgment, this would cause significant hardship for many seniors who simply cannot afford to bear these costs. In addition, as the National Association of Insurance Commissioners recently indicated in a December 19, 2012 letter to Secretary Sebelius, Medigap coverage is not a driver of unnecessary medical care by seniors. Peer reviewed studies do not indicate that increased cost sharing would promote a more "appropriate" use of physicians' services. Instead, this more likely would result in delayed treatments that could increase Medicare program costs.

The UAW believes it would be particularly problematic to apply surcharges or benefit prohibitions to supplemental health care benefits provided to retirees by employers, Taft Hartley plans or VEBAs. With individual Medigap policies, the individual always has a choice about whether to prospectively purchase the supplemental coverage. But in the case of supplemental health care benefits provided to retirees by employers, Taft

Hartley plans or VEBAs, the retirees have already given up wages during their active working years based on the promise that they would receive this additional health care protection during their retirement. In our judgment, it would be manifestly unfair to now change the rules and deprive the retirees of the bargain that they negotiated many years ago and that they effectively paid for by foregoing part of their wages. For this reason, if there were going to be some type of surcharge or benefit prohibition, we believe it should be structured as proposed by the Obama administration, so that it would only apply to individual Medigap policies purchased by beneficiaries who enroll in Medicare after some future date.

In conclusion, the UAW appreciates the opportunity to submit our views to the Subcommittee on Health of the Energy and Commerce Committee regarding proposals to change Medicare's traditional benefit design. We look forward to working with Members of the Subcommittee and the entire Congress as you consider these important issues.

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