

Opening Statement of the Honorable Joe Pitts
Subcommittee on Health
Hearing on “Fostering Innovation to Fight Waste, Fraud and Abuse in Health Care”
February 27, 2013

(As Prepared for Delivery)

According to data from the Centers for Medicare and Medicaid Services (CMS), in 2011, Medicare spending accounted for 21 percent of total national health expenditures (NHEs). Medicaid makes up another 15 percent of total NHE.

Medicare has been on the Government Accountability Office’s (GAO) “high risk list” continuously since GAO began designating programs as “high risk” in 1990.

And it remains there in GAO’s February 2013 report, “High Risk Series: An Update.”

In 2012, Medicare spent approximately \$555 billion caring for more than 49 million beneficiaries. CMS estimates that out of that \$555 billion, \$44 billion – nearly 8 percent – were improper payments.

The report noted that while Medicare had made progress toward addressing some of GAO’s previous concerns and the program’s known deficiencies, not enough had been done to warrant its removal from the list.

Medicaid entered the “high risk list” in 2003 and has also remained there.

With total expenditures of \$436 billion in 2011 for its approximately 70 million low-income beneficiaries, the Department of Health and Human Services (HHS) estimates that Medicaid’s national improper payment rate is 7.1 percent.

These improper payment figures represent only those payments that CMS knows were improper. Estimates of the real cost of waste, fraud, and abuse in these programs are much higher.

In an April 2012 study, former CMS Administrator Donald M. Berwick and RAND Corporation analyst Andrew D. Hackbarth estimated that fraud and abuse added as much as \$98 billion to Medicare and Medicaid spending in 2011.

And, without any significant program integrity changes, the Affordable Care Act (ACA) will add an additional 7 million people to the Medicaid rolls in 2014. By 2022, that number will grow to 11 million new enrollees.

The ACA also contains perverse incentives for private insurance companies to ignore waste and fraud, which drives up premiums and copayments for consumers.

The ACA’s Medical Loss Ratio (MLR) provision requires health plans to spend 80 percent (for plans in the individual and group market) and 85 percent (for large group plans) of premium revenue on medical care.

Supporters of the MLR claim it was designed to protect consumers from unscrupulous insurance companies.

However, under the regulation, investments in fraud detection, and even quality improvement and care coordination, fall under “administrative expenses,” which can only make up 20 percent of a plan’s spending.

Plans struggling to make the 80 or 85 percent threshold for medical costs often can't risk these activities – which could save consumers money and provide them with a higher quality of care – for fear of being penalized and having to pay rebates.

Even worse, if a plan does identify fraud, cutting those fraudulent payments and activities actually reduces their amount of spending on medical costs, making it even harder for them to reach the 80 or 85 percent threshold.

We are actually exporting the inefficiencies of federal health programs into the private sector.

While some here today may champion MLR, it is apparent to me that MLR will not reduce the tens of billions of taxpayer dollars lost each year to improper payments, but rather add to it.

And that is a problem.

Simply eliminating waste, fraud, and abuse is not going to put Medicare and Medicaid on solid financial ground, but the threat it poses to sick Americans cannot be ignored any longer.

We have an obligation to use taxpayer funds in the most responsible and efficient ways possible – an obligation we are not currently meeting.

I thank all of our witnesses for being here today.

I look forward to hearing from our GAO witnesses what areas in the Medicare and Medicaid programs are most vulnerable to fraud and their recommendations to combat improper payments.

I also look forward to hearing from our private sector witnesses about the tools and innovations they use to fight waste, fraud, and abuse on a daily basis.

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