STATEMENT OF

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Chairman Kline, Ranking Member Miller, and Members of the Committee, thank you for the invitation to discuss the President's FY 2013 Budget for the Department of Health and Human Services (HHS).

The Budget for the Department of Health and Human Services (HHS) invests in health care, disease prevention, social services, and scientific research. HHS makes investments where they will have the greatest impact, build on the efforts of our partners, and lead to meaningful gains in health and opportunity for the American people.

The President's fiscal year (FY) 2013 Budget for HHS includes a reduction in discretionary funding for ongoing activities, and legislative proposals that would save an estimated $350.2 billion over ten years. The Budget totals $940.9 billion in outlays and proposes $76.7 billion in discretionary budget authority. This funding will enable HHS to: Strengthen Health Care; Support American Families; Advance Scientific Knowledge and Innovation; Strengthen the Nation's Health and Human Service Infrastructure and Workforce; Increase Efficiency, Transparency, and Accountability of HHS Programs; and Complete the Implementation of the Recovery Act.

STRENGTHEN HEALTH CARE

Delivering benefits of the Affordable Care Act to the American People: The Affordable Care Act expands access to affordable health coverage to millions of Americans, increases consumer protections to ensure individuals have coverage when they need it most, and slows increases in health costs. Effective implementation of the Affordable Care Act is central to the improved fiscal outlook and well-being of the Nation. The Centers for Medicare & Medicaid Services (CMS) is requesting an additional $1 billion in discretionary funding to continue implementing the Affordable Care Act, including Affordable Insurance Exchanges, and to help keep up with the growth in the Medicare population.

Expand and Improve Health Insurance Coverage: Beginning in 2014, Affordable Insurance Exchanges will provide improved access to insurance coverage for millions of Americans. Exchanges will make purchasing private health insurance easier by providing eligible individuals and small businesses with one-stop-shopping where they can compare benefit plans. New premium tax credits and reductions in cost-sharing will help ensure that eligible individuals can afford to pay for the cost of private coverage through Exchanges. FY 2013 will be a critical year for building the infrastructure and initiating the many business operations critical to enabling Exchanges to begin operation on January 1, 2014. The expansion of health insurance coverage for millions of low-income individuals who were previously not eligible for coverage also begins in 2014. CMS has worked closely with states to ensure they are prepared to meet the 2014 deadline and will continue this outreach in FY 2013.

Many important private market reforms have already gone into effect, providing new rights and benefits to consumers to put them in charge of their own health care. The Affordable Care Act's Patient's Bill of Rights allows young adults to stay on their parents' plans until age 26 and ensures that consumers receive the care they need when they get sick and need it most by prohibiting rescissions and lifetime dollar limits on coverage for care. The new market reforms also provide for independent reviews of coverage

disputes. Temporary programs like the Early Retiree Reinsurance Plan (ERRP) and the Pre-Existing Condition Insurance Plan (PCIP) are supporting affordable coverage for individuals who often face difficulties obtaining private insurance in the current marketplace. Additionally, rate review and medical loss ratio (MLR) provisions help ensure that health care premiums are kept reasonable and affordable year after year. The already operational rate review provision gives states additional resources to determine if a proposed health care premium increase is unreasonable and, in many cases, help enable state authorities to deny an unreasonable rate increase. HHS reviews large proposed increases in states that do not have effective rate review programs. The MLR provisions guarantee that, starting in 2011, insurance companies use at least 80 percent or 85 percent of premium revenue, depending on the market, to provide or improve health care for their customers or give them a rebate.

Strengthen the Delivery System: The Affordable Care Act established a Center for Medicare and Medicaid Innovation (Innovation Center). The Innovation Center is tasked with developing, testing, and—for those that prove successful—expanding innovative payment and delivery system models to improve quality of care and reduce costs in Medicare, Medicaid, and the Children's Health Insurance Program (CHIP). The Innovation Center began operations in November 2010 and has undertaken an ambitious agenda encompassing patient safety, coordination of care among multiple providers, and enhanced primary care. These projects can serve as crucial stepping stones towards a higher-quality, more efficient health care system.

HHS is also working to ensure that the most vulnerable in our Nation have full access to seamless, high-quality health care. The Affordable Care Act established a new office to more effectively integrate benefits and improve coordination between states and the Federal Government for those who are eligible for both Medicare and Medicaid. While Medicare-Medicaid beneficiaries make up a relatively small portion of enrollment in the two programs, they represent a significant portion of expenditures. HHS is currently supporting 15 states as they design models of care that better integrate Medicare and Medicaid services and is designing additional demonstrations to continue to improve care.

CMS is currently offering three initiatives that will help spur the development of Accountable Care Organizations (ACOs) for Medicare beneficiaries. ACOs are groups of health providers who join together to give high-quality, coordinated care to the patients they serve. If an ACO meets quality standards, it will be eligible to share in savings it achieves for the Medicare program, and may be subject to losses, offering a powerful incentive to restructure care to better serve patients.

Ensuring Access to Quality Care for Vulnerable Populations: Health Centers are a key component of the Nation's health care safety net. The President's Budget includes a total of $3 billion, including an increase of $300 million from mandatory funds under the Affordable Care Act, to the Health Centers program. This investment will provide Americans in underserved areas, both rural and urban, with access to comprehensive primary and preventive health care services. This funding will create 25 new health center sites in areas of the country where they do not currently exist and provide access to quality care for 21 million people, an increase of 300,000 additional patients over FY 2012. The Budget also promotes a policy of steady and sustainable health center growth by distributing Affordable Care Act resources over the long-term. This policy safeguards resources for new and existing health centers to continue services and ensures a smooth transition as health centers increase their capacity to provide care as access to insurance coverage expands.

Improving Healthcare Quality and Patient Safety: The Affordable Care Act directed HHS to develop a national strategy to improve health care services delivery, patient health outcomes, and population health. In FY 2011, HHS released the National Strategy for Quality Improvement in Health Care, which highlights three broad aims: Better Care, Healthy People and Communities, and Affordable Care. Since publishing the Strategy, HHS has focused on gathering additional input from private partners and aligning

new and existing HHS activities with the Strategy. HHS will enhance the Strategy by incorporating input from stakeholders and developing metrics to measure progress toward achieving the Strategy's aims and priorities. Already, the Strategy is serving as a blueprint for quality improvement activities across the country.

CMS will continue funding for the Partnership for Patients, an initiative launched in April 2011 that sets aggressive targets for improving the quality of healthcare: reducing preventable hospital-acquired conditions by 40 percent and preventable readmissions by 20 percent by the end of 2013, as compared to 2010.

SUPPORT AMERICAN FAMILIES

Healthy Development of Children and Families: HHS oversees many programs that support children and families, including Head Start, Child Care, Child Support, and Temporary Assistance for Needy Families (TANF). The FY 2013 Budget request invests in early education, recognizing the role high-quality early education programs can play in preparing children for school success. The request also supports TANF and proposes to restore funding for the Supplemental Grants without increasing overall TANF funding.

Investing in Education by Supporting an Early Learning Reform Agenda: The FY 2013 Budget supports critical reforms in Head Start and a Child Care quality initiative that, when taken together with the Race to the Top Early Learning Challenge, are key elements of the Administration's broader education reform agenda designed to improve our Nation's competitiveness by helping every child enter school ready for success.

On November 8, 2011 the President announced important new steps to improve the quality of services and accountability at Head Start centers across the country. The Budget requests over $8 billion for Head Start programs, an increase of $85 million over FY 2012, to maintain services for the 962,000 children currently participating in the program. This investment will also provide resources to effectively implement new regulations that require grantees that do not meet high quality benchmarks to compete for continued funding, introducing an unprecedented level of accountability into the Head Start program. By directing taxpayer dollars to programs that offer high-quality Head Start services, this robust, open competition for Head Start funding will help to ensure that Head Start programs provide the best available early education services to our most vulnerable children.

The Budget provides $6 billion for child care, an increase of $825 million over FY 2012. This funding level will provide child care assistance to 70,000 more children than could otherwise receive services without this increased investment; 1.5 million children in total. In addition to providing funding for direct assistance to more children, the Budget includes $300 million for a new child care quality initiative that states would use to invest directly in programs and teachers so that individual child care programs can do a better job of meeting the early learning and care needs of children and families. The funds would also support efforts to measure the quality of individual child care programs through a rating system or another system of quality indicators, and to clearly communicate program-specific information to parents so they can make informed choices for their families. These investments are consistent with the broader reauthorization principles outlined in the Budget, which encompass a reform agenda that would help transform the Nation's child care system to one that is focused on continuous quality improvement and provides more low-income children access to high-quality early education settings that support children's learning, development, and success in school.

Improve the Foster Care System: The Budget includes an additional $2.8 billion over ten years to support improvements in child welfare. Additional resources will support incentives to states to improve

outcomes for children in foster care and those who are receiving in-home services from the child welfare system, and also to require that child support payments made on behalf of children in foster care be used in the best interest of those children. The Budget also creates a new teen pregnancy prevention program specifically targeted to youth in foster care.

Strengthen TANF and Create Jobs: The Budget would provide continued funding for the TANF program and would fund the Supplemental Grants for Population Increases. When Congress takes up reauthorization, we want to work with lawmakers to strengthen the program's effectiveness in accomplishing its goals. This should include using performance indicators to drive program improvement and ensuring that states have the flexibility to engage recipients—including families with serious barriers to employment—in the most effective activities to promote success in the workforce. We also want to work with Congress to revise the Contingency Fund to make it more effective during economic downturns.

Keeping America Healthy: The President's Budget includes resources necessary to enhance clinical and community prevention, support research, develop the public health workforce, control infectious diseases, and invest in prevention and management of chronic diseases and conditions.

Preventing Teen Pregnancy: The Budget includes $105 million in the Prevention and Public Health Fund for the Office of the Assistant Secretary for Health for teen pregnancy prevention programs. These programs will support community-based efforts to reduce teen pregnancy using evidence-based models as well as promising programs and innovative strategies. The Budget also includes $15 million in funding for CDC teen pregnancy prevention activities to reduce the number of unintended pregnancies through science-based prevention approaches.

Protect Vulnerable Populations: HHS is committed to ensuring that vulnerable populations continue to receive critical services during this period of economic uncertainty.

STRENGTHEN THE NATION'S HEALTH AND HUMAN SERVICE INFRASTRUCTURE AND WORK FORCE

Investing in Infrastructure: A strong health workforce is key to ensuring that more Americans can get the quality care they need to stay healthy. The Budget includes $677 million, an increase of $49 million over FY 2012, within HRSA to expand the capacity and improve the training and distribution of primary care, dental, and pediatric health providers. The Budget will support the placement of more than 7,100 primary care providers in underserved areas and begin investments that expand the capacity of institutions to train 2,800 additional primary care providers over 5 years.

INCREASE EFFICIENCY, TRANSPARENCY, AND ACCOUNTABILIY OF HHS PROGRAMS

Living Within our Means: HHS is committed to improving the Nation's health and well-being while simultaneously contributing to deficit reduction. The FY 2013 discretionary request demonstrates this commitment by maintaining ongoing investments in areas most central to advancing the HHS mission while making reductions to lower priority areas, reducing duplication, and increasing administrative efficiencies. Overall, the FY 2013 request includes over $2.1 billion in terminations and reductions to fund initiatives while achieving savings in a constrained fiscal environment. Many of these reductions, such as the $177 million cut to the Children's Hospital Graduate Medical Education Payment Program, the $452 million cut to the Low Income Home Energy Assistance Program (LIHEAP), and the $327 million cut to the Community Services Block Grant (CSBG) were very difficult to make, but are necessitated by the current fiscal environment.

The Administration remains supportive of CSBG's important goals and the services it provides to low-income Americans. We have had to make tough choices to meet current fiscal targets. The 2013 Budget provides $350 million for CSBG, and proposes to strengthen the program to make sure that we are getting the most out of every dollar we spend. The Budget proposes that entities receiving funding from CSBG meet certain performance standards, and compete for funding if they fall below those standards.

Regarding LIHEAP, the Administration proposes to adjust funding for expected winter fuel costs and to target funds to those most in need. The request is $3 billion, $452 million below the FY 2012 level and $450 million above both FY 2008 and the 2012 request. With constrained resources, the Budget targets assistance where it is needed most. The request targets $2.8 billion in base grants using the state allocation Congress enacted for FY 2012. The request also includes $200 million in contingency funds, which will be used to address the needs of households reliant on home delivered fuels (heating oil and propane) should expected price trends be realized, as well as other energy-related emergencies.

In September 2011, the Administration detailed a plan for economic growth and deficit reduction. The FY 2013 Budget follows this blueprint in its legislative proposals, presenting a package of health savings proposals that would save more than $360 billion over 10 years, with almost all of these savings coming from Medicare and Medicaid. Medicare proposals would encourage high-quality, efficient care, increase the availability of generic drugs and biologics, and implement structural reforms to encourage beneficiaries to seek value in their health care choices. The Budget also seeks to make Medicaid more flexible, efficient, and accountable while strengthening Medicaid program integrity. Together, the FY 2013 discretionary budget request and these legislative proposals allow HHS to support the Administration's challenging yet complementary goals of investing in the future and establishing a sustainable fiscal outlook.

Program Integrity and Oversight: The FY 2013 Budget continues to make program integrity a top priority. The Budget includes $610 million in discretionary funding for Health Care Fraud and Abuse Control (HCFAC), the full amount authorized under the Budget Control Act of 2011 (BCA). The Budget also proposes to fully fund discretionary program integrity initiatives at $581 million in FY 2012, consistent with the BCA. The discretionary investment supports the continued reduction of the Medicare fee-for-service improper payment rate; investments in prevention-focused, data-driven initiatives like predictive modeling; and HHS-Department of Justice Health Care Fraud Prevention and Enforcement Action Team (HEAT) initiatives, including Medicare Strike Force teams and fighting pharmaceutical fraud.

From 1997 to 2011, HCFAC programs have returned over $20.6 billion to the Medicare Trust Funds. Approximately $4.1 billion was recovered last year in FY 2011, including $2.5 billion returned to the Trust Funds, and the current three-year return-on-investment of 7.2 to 1 is the highest in the history of the HCFAC program. The Budget proposes a 10-year discretionary investment yielding a conservative estimate of $11.3 billion in Medicare and Medicaid savings and 16 program integrity proposals to build on the Affordable Care Act's comprehensive fraud fighting authorities for savings of an additional $3.6 billion over 10 years.

Additionally, the Budget includes funding increases for significant oversight activities. The request includes $84 million for the Office of Medicare Hearings and Appeals, an increase of $12 million, to continue to process the increasing number of administrative law judge appeals within the statutory 90-day timeframe while maintaining the quality and accuracy of its decisions. The Budget also includes $370 million in discretionary and mandatory funding for the Office of Inspector General (OIG), a 4 percent increase from FY 2012. This increase will enable OIG to expand CMS Program Integrity efforts in areas such as HEAT, improper payments, and focus on investigative efforts on civil fraud, oversight of grants, and the operation of new Affordable Care Act programs.

Additionally, Durable Medical Equipment (DME) Competitive Bidding is providing competitive pricing, while continuing to ensure access to quality medical equipment from accredited suppliers, which will save Medicare $25.7 billion over 10 years and help millions of Medicare beneficiaries save $17.1 billion in out-of-pocket costs over 10 years. The Budget proposes to extend some of the efficiencies of DME Competitive Bidding to Medicaid by limiting Federal reimbursement on certain DME services to what Medicare would have paid in the same state for the same services. This proposal is expected to save Medicaid $3.0 billion over 10 years.

COMPLETING IMPLEMENTATION OF THE RECOVERY ACT

The American Recovery and Reinvestment Act provided $140 billion to HHS programs, of which $110 billion had been spent by grant and contract recipients by the end of FY 2011. The vast majority of these funds helped state and local communities cope with the effects of the economic recession.

Thousands of jobs were also created or saved, including subsidized employment and training for over 260,000 people through the Temporary Assistance for Needy Families (TANF) program Emergency Contingency Fund.

The Recovery Act provided states fiscal relief through a temporary increase in Federal matching payments of $84 billion for Medicaid and foster care and adoption assistance.

HHS Recovery Act funds are also making long-term investments in the health of the American people and the health care system itself. Beginning in FY 2011 and continuing for the next few years, HHS will be investing more than $20 billion to support implementation of health information technology in the health care industry on a mass scale. This effort is expected to significantly improve the quality and efficiency of the U.S. health care system. In addition, $10 billion in Recovery Act funds were invested in biomedical research programs around the country, including a major effort to document genomic changes in 20 of the most common cancers and to build research laboratory capacity. Of more immediate impact, $1 billion has been supporting prevention and wellness programs, including projects in 44 communities with a total combined population of over 50 million aimed at reducing tobacco use and the chronic diseases associated with obesity.

HHS has also met the challenges of transparency and accountability in the management of its Recovery Act funds. More than 23,000 grantees and contractors with Recovery Act funding from HHS discretionary programs have submitted reports on the status of their projects over the last 10 quarters. More than 99 percent of the required recipient reports have been submitted on time and are available to the public on Recovery.gov; non-filers have been sanctioned. Finally, HHS Recovery Act program managers are working hand-in-hand with the Secretary's Council on Program Integrity to ensure that risks for fraud, abuse, and waste are identified and steps are taken to mitigate those risks.

Thank you for the opportunity to testify. I will be happy to answer any questions you may have.