

107<sup>TH</sup> CONGRESS  
2<sup>D</sup> SESSION

# H. R. 4856

To establish a medical education trust fund, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

JUNE 4, 2002

Mrs. LOWEY introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Energy and Commerce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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## A BILL

To establish a medical education trust fund, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the  
5 “Medical Education Trust Fund Act of 2002”.

6 (b) TABLE OF CONTENTS.—The table of contents of  
7 this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Medical Education Trust Fund.
- Sec. 3. Amendments to medicare program.
- Sec. 4. Amendments to medicaid program.
- Sec. 5. Assessments on insured and self-insured health plans.

Sec. 6. Medical Education Advisory Commission.

Sec. 7. Demonstration projects.

1 **SEC. 2. MEDICAL EDUCATION TRUST FUND.**

2 The Social Security Act (42 U.S.C. 300 et seq.) is  
3 amended by adding after title XXI the following new title:

4 “TITLE XXII—MEDICAL EDUCATION TRUST  
5 FUND

6 “TABLE OF CONTENTS OF TITLE

“Sec. 2201. Establishment of Trust Fund.

“Sec. 2202. Payments to medical schools.

“Sec. 2203. Payments to teaching hospitals.

7 **“SEC. 2201. ESTABLISHMENT OF TRUST FUND.**

8 “(a) IN GENERAL.—There is established in the  
9 Treasury of the United States a fund to be known as the  
10 Medical Education Trust Fund (in this title referred to  
11 as the ‘Trust Fund’), consisting of the following accounts:

12 “(1) The Medical School Account.

13 “(2) The Medicare Teaching Hospital Indirect  
14 Account.

15 “(3) The Medicare Teaching Hospital Direct  
16 Account.

17 “(4) The Non-Medicare Teaching Hospital In-  
18 direct Account.

19 “(5) The Non-Medicare Teaching Hospital Di-  
20 rect Account.

21 Each such account shall consist of such amounts as are  
22 allocated and transferred to such account under this sec-

1 tion, sections 1886(m) and 1936, and section 4503 of the  
2 Internal Revenue Code of 1986. Amounts in the accounts  
3 of the Trust Fund shall remain available until expended.

4 “(b) EXPENDITURES FROM TRUST FUND.—  
5 Amounts in the accounts of the Trust Fund are available  
6 to the Secretary for making payments under sections 2202  
7 and 2203.

8 “(c) INVESTMENT.—

9 “(1) IN GENERAL.—The Secretary of the  
10 Treasury shall invest amounts in the accounts of the  
11 Trust Fund which the Secretary determines are not  
12 required to meet current withdrawals from the Trust  
13 Fund. Such investments may be made only in inter-  
14 est-bearing obligations of the United States. For  
15 such purpose, such obligations may be acquired on  
16 original issue at the issue price, or by purchase of  
17 outstanding obligations at the market price.

18 “(2) SALE OF OBLIGATIONS.—The Secretary of  
19 the Treasury may sell at market price any obligation  
20 acquired under paragraph (1).

21 “(3) AVAILABILITY OF INCOME.—Any interest  
22 derived from obligations held in each such account,  
23 and proceeds from any sale or redemption of such  
24 obligations, are hereby appropriated to such account.

1       “(d) MONETARY GIFTS TO TRUST FUND.—There are  
2 appropriated to the Trust Fund such amounts as may be  
3 unconditionally donated to the Federal Government as  
4 gifts to the Trust Fund. Such amounts shall be allocated  
5 and transferred to the accounts described in subsection  
6 (a) in the same proportion as the amounts in each of the  
7 accounts bears to the total amount in all the accounts of  
8 the Trust Fund.

9       **“SEC. 2202. PAYMENTS TO MEDICAL SCHOOLS.**

10       “(a) FEDERAL PAYMENTS TO MEDICAL SCHOOLS  
11 FOR CERTAIN COSTS.—

12               “(1) IN GENERAL.—In the case of a medical  
13 school that in accordance with paragraph (2) sub-  
14 mits to the Secretary an application for fiscal year  
15 2003 or any subsequent fiscal year, the Secretary  
16 shall make payments for such year to the medical  
17 school for the purpose specified in paragraph (3).  
18 The Secretary shall make such payments from the  
19 Medical School Account in an amount determined in  
20 accordance with subsection (b), and may administer  
21 the payments as a contract, grant, or cooperative  
22 agreement.

23               “(2) APPLICATION FOR PAYMENTS.—For pur-  
24 poses of paragraph (1), an application for payments

1 under such paragraph for a fiscal year is in accord-  
2 ance with this paragraph if—

3 “(A) the medical school involved submits  
4 the application not later than the date specified  
5 by the Secretary; and

6 “(B) the application is in such form, is  
7 made in such manner, and contains such agree-  
8 ments, assurances, and information as the Sec-  
9 retary determines to be necessary to carry out  
10 this section.

11 “(3) PURPOSE OF PAYMENTS.—The purpose of  
12 payments under paragraph (1) is to assist medical  
13 schools in maintaining and developing quality edu-  
14 cational programs in an increasingly competitive  
15 health care system.

16 “(b) AVAILABILITY OF TRUST FUND FOR PAYMENTS;  
17 ANNUAL AMOUNT OF PAYMENTS.—

18 “(1) AVAILABILITY OF TRUST FUND FOR PAY-  
19 MENTS.—The following amounts shall be available  
20 for a fiscal year for making payments under sub-  
21 section (a) from the amount allocated and trans-  
22 ferred to the Medical School Account under sections  
23 1886(m), 1936, 2201(c)(3), and 2201(d), and sec-  
24 tion 4503 of the Internal Revenue Code of 1986:

1           “(A) In the case of fiscal year 2003,  
2           \$200,000,000.

3           “(B) In the case of fiscal year 2004,  
4           \$300,000,000.

5           “(C) In the case of fiscal year 2005,  
6           \$400,000,000.

7           “(D) In the case of fiscal year 2006,  
8           \$500,000,000.

9           “(E) In the case of fiscal year 2007,  
10          \$600,000,000.

11          “(F) In the case of each subsequent fiscal  
12          year, the amount determined under this para-  
13          graph for the previous fiscal year updated  
14          through the midpoint of such previous fiscal  
15          year by the estimated percentage change in the  
16          general health care inflation factor (as defined  
17          in subsection (d)) during the 12-month period  
18          ending at that midpoint, with appropriate ad-  
19          justments to reflect previous underestimations  
20          or overestimations under this subparagraph in  
21          the projected health care inflation factor.

22          “(2) AMOUNT OF PAYMENTS FOR MEDICAL  
23          SCHOOLS.—

24                 “(A) IN GENERAL.—Subject to the annual  
25                 amount available under paragraph (1) for a fis-

1 cal year, the amount of payments required  
2 under subsection (a) to be made to a medical  
3 school that submits to the Secretary an applica-  
4 tion for such year in accordance with subsection  
5 (a)(2) is an amount equal to an amount deter-  
6 mined by the Secretary in accordance with sub-  
7 paragraph (B).

8 “(B) DEVELOPMENT OF FORMULA.—The  
9 Secretary shall develop a formula for allocation  
10 of funds to medical schools under this section  
11 consistent with the purpose described in sub-  
12 section (a)(3).

13 “(c) MEDICAL SCHOOL DEFINED.—For purposes of  
14 this section, the term ‘medical school’ means a school of  
15 medicine (as defined in section 799B of the Public Health  
16 Service Act) or a school of osteopathic medicine (as de-  
17 fined in such section).

18 “(d) GENERAL HEALTH CARE INFLATION FAC-  
19 TOR.—The term ‘general health care inflation factor’  
20 means the Consumer Price Index for Medical Services as  
21 determined by the Bureau of Labor Statistics.

22 **“SEC. 2203. PAYMENTS TO TEACHING HOSPITALS.**

23 “(a) FORMULA PAYMENTS TO ELIGIBLE ENTI-  
24 TIES.—

1           “(1) IN GENERAL.—In the case of any fiscal  
2 year beginning after September 30, 2002, the Sec-  
3 retary shall make payments to each eligible entity  
4 that, in accordance with paragraph (2), submits to  
5 the Secretary an application for such fiscal year.  
6 Such payments shall be made from the Trust Fund,  
7 and the total of the payments to the eligible entity  
8 for the fiscal year shall equal the sum of the  
9 amounts determined under subsections (b), (c), (d),  
10 and (e) with respect to such entity.

11           “(2) APPLICATION.—For purposes of para-  
12 graph (1), an application shall contain such informa-  
13 tion as may be necessary for the Secretary to make  
14 payments under such paragraph to an eligible entity  
15 during a fiscal year. An application shall be treated  
16 as submitted in accordance with this paragraph if it  
17 is submitted not later than the date specified by the  
18 Secretary, and is made in such form and manner as  
19 the Secretary may require.

20           “(3) PERIODIC PAYMENTS.—Payments under  
21 paragraph (1) to an eligible entity for a fiscal year  
22 shall be made periodically, at such intervals and in  
23 such amounts as the Secretary determines to be ap-  
24 propriate (subject to applicable Federal law regard-  
25 ing Federal payments).

1           “(4) ADMINISTRATOR OF PROGRAMS.—The Sec-  
2           retary shall carry out responsibility under this title  
3           by acting through the Administrator of the Centers  
4           for Medicare & Medicaid Services.

5           “(5) ELIGIBLE ENTITY.—For purposes of this  
6           title, the term ‘eligible entity’, with respect to any  
7           fiscal year, means—

8                   “(A) for payment under subsections (b)  
9                   and (c), an entity which would be eligible to re-  
10                  ceive payments for such fiscal year under—

11                           “(i) section 1886(d)(5)(B), if such  
12                           payments had not been terminated for dis-  
13                           charges occurring after September 30,  
14                           2002;

15                           “(ii) section 1886(h), if such pay-  
16                           ments had not been terminated for cost re-  
17                           porting periods beginning after September  
18                           30, 2002; or

19                           “(iii) both sections; or

20                   “(B) for payment under subsections (d)  
21                   and (e)—

22                           “(i) an entity which meets the re-  
23                           quirement of subparagraph (A); or

1                   “(ii) an entity which the Secretary de-  
2                   termines should be considered an eligible  
3                   entity.

4                   “(b) DETERMINATION OF AMOUNT FROM MEDICARE  
5   TEACHING HOSPITAL INDIRECT ACCOUNT.—

6                   “(1) IN GENERAL.—The amount determined for  
7                   an eligible entity for a fiscal year under this sub-  
8                   section is the amount equal to the applicable per-  
9                   centage of the total amount allocated and trans-  
10                  ferred to the Medicare Teaching Hospital Indirect  
11                  Account under section 1886(m)(1), and subsections  
12                  (c)(3) and (d) of section 2201 for such fiscal year.

13                  “(2) APPLICABLE PERCENTAGE.—For purposes  
14                  of paragraph (1), the applicable percentage for any  
15                  fiscal year is equal to the percentage of the total  
16                  payments which would have been made to the eligi-  
17                  ble entity in such fiscal year under section  
18                  1886(d)(5)(B) if such payments had not been termi-  
19                  nated for discharges occurring after September 30,  
20                  2002.

21                  “(c) DETERMINATION OF AMOUNT FROM MEDICARE  
22   TEACHING HOSPITAL DIRECT ACCOUNT.—

23                  “(1) IN GENERAL.—The amount determined for  
24                  an eligible entity for a fiscal year under this sub-  
25                  section is the amount equal to the applicable per-

1       centage of the total amount allocated and trans-  
2       ferred to the Medicare Teaching Hospital Direct Ac-  
3       count under section 1886(m)(2), and subsections  
4       (c)(3) and (d) of section 2201 for such fiscal year.

5               “(2) APPLICABLE PERCENTAGE.—For purposes  
6       of paragraph (1), the applicable percentage for any  
7       fiscal year is equal to the percentage of the total  
8       payments which would have been made to the eligi-  
9       ble entity in such fiscal year under section 1886(h)  
10      if such payments had not been terminated for cost  
11      reporting periods beginning after September 30,  
12      1999.

13              “(d) DETERMINATION OF AMOUNT FROM NON-  
14      MEDICARE TEACHING HOSPITAL INDIRECT ACCOUNT.—

15               “(1) IN GENERAL.—The amount determined for  
16      an eligible entity for a fiscal year under this sub-  
17      section is the amount equal to the applicable per-  
18      centage of the total amount allocated and trans-  
19      ferred to the Non-Medicare Teaching Hospital Indi-  
20      rect Account for such fiscal year under section 1936,  
21      subsections (c)(3) and (d) of section 2201, and sec-  
22      tion 4503 of the Internal Revenue Code of 1986.

23               “(2) APPLICABLE PERCENTAGE.—For purposes  
24      of paragraph (1), the applicable percentage for any  
25      fiscal year for an eligible entity is equal to the per-

1 centage of the total payments which, as determined  
2 by the Secretary, would have been made in such fis-  
3 cal year under section 1886(d)(5)(B) if—

4 “(A) such payments had not been termi-  
5 nated for discharges occurring after September  
6 30, 2002; and

7 “(B) non-medicare patients were taken  
8 into account in lieu of medicare patients.

9 “(e) DETERMINATION OF AMOUNT FROM NON-  
10 MEDICARE TEACHING HOSPITAL DIRECT ACCOUNT.—

11 “(1) IN GENERAL.—The amount determined for  
12 an eligible entity for a fiscal year under this sub-  
13 section is the amount equal to the applicable per-  
14 centage of the total amount allocated and trans-  
15 ferred to the Non-Medicare Teaching Hospital Di-  
16 rect Account for such fiscal year under section 1936,  
17 subsections (c)(3) and (d) of section 2201, and sec-  
18 tion 4503 of the Internal Revenue Code of 1986.

19 “(2) APPLICABLE PERCENTAGE.—For purposes  
20 of paragraph (1), the applicable percentage for any  
21 fiscal year for an eligible entity is equal to the per-  
22 centage of the total payments which, as determined  
23 by the Secretary, would have been made in such fis-  
24 cal year under section 1886(h) if—

1           “(A) such payments had not been termi-  
2           nated for cost reporting periods beginning after  
3           September 30, 2002; and

4           “(B) non-medicare patients were taken  
5           into account in lieu of medicare patients.”.

6 **SEC. 3. AMENDMENTS TO MEDICARE PROGRAM.**

7           Section 1886 of the Social Security Act (42 U.S.C.  
8 1395ww) is amended—

9           (1) in subsection (d)(5)(B), in the matter pre-  
10          ceding clause (i), by striking “The Secretary shall  
11          provide” and inserting the following: “For dis-  
12          charges occurring before October 1, 2002, the Sec-  
13          retary shall provide”;

14          (2) in subsection (d)(11)(C), by inserting after  
15          “paragraph (5)(B)” “(notwithstanding that pay-  
16          ments under paragraph (5)(B) are terminated for  
17          discharges occurring after September 30, 2002)”;

18          (3) in subsection (h)—

19                 (A) in paragraph (1), in the first sentence,  
20                 by striking “the Secretary shall provide” and  
21                 inserting “the Secretary shall, subject to para-  
22                 graph (7), provide”; and

23                 (B) by adding at the end the following:

24                 “(7) LIMITATION.—

1           “(A) IN GENERAL.—The authority to  
2           make payments under this subsection (other  
3           than payments made under paragraphs (3)(D)  
4           and (6)) shall not apply with respect to—

5                   “(i) cost reporting periods beginning  
6                   after September 30, 2002; and

7                   “(ii) any portion of a cost reporting  
8                   period beginning on or before such date  
9                   which occurs after such date.

10           “(B) RULE OF CONSTRUCTION.—This  
11           paragraph may not be construed as authorizing  
12           any payment under section 1861(v) with re-  
13           spect to graduate medical education.”; and  
14           (4) by adding at the end the following:

15           “(m) TRANSFERS TO MEDICAL EDUCATION TRUST  
16           FUND.—

17                   “(1) INDIRECT COSTS OF MEDICAL EDU-  
18                   CATION.—

19                   “(A) TRANSFER.—

20                           “(i) IN GENERAL.—From the Federal  
21                           Hospital Insurance Trust Fund, the Sec-  
22                           retary shall, for fiscal year 2003 and each  
23                           subsequent fiscal year, transfer to the  
24                           Medical Education Trust Fund an amount

1 equal to the amount estimated by the Sec-  
2 retary under subparagraph (B).

3 “(ii) ALLOCATION.—Of the amount  
4 transferred under clause (i)—

5 “(I) there shall be allocated and  
6 transferred to the Medical School Ac-  
7 count of such Trust Fund an amount  
8 which bears the same ratio to the  
9 total amount available under section  
10 2202(b)(1) for the fiscal year (re-  
11 duced by the balance in such account  
12 at the end of the preceding fiscal  
13 year) as the amount transferred under  
14 clause (i) bears to the total amounts  
15 transferred to such Trust Fund under  
16 title XXII (excluding amounts trans-  
17 ferred under subsections (c)(3) and  
18 (d) of section 2201) for such fiscal  
19 year; and

20 “(II) the remainder shall be allo-  
21 cated and transferred to the Medicare  
22 Teaching Hospital Indirect Account of  
23 such Trust Fund.

24 “(B) DETERMINATION OF AMOUNTS.—The  
25 Secretary shall make an estimate for each fiscal

1 year involved of the nationwide total of the  
2 amounts that would have been paid under sub-  
3 section (d)(5)(B) to hospitals during the fiscal  
4 year if such payments had not been terminated  
5 for discharges occurring after September 30,  
6 2002.

7 “(2) DIRECT COSTS OF MEDICAL EDUCATION.—

8 “(A) TRANSFER.—

9 “(i) IN GENERAL.—From the Federal  
10 Hospital Insurance Trust Fund and the  
11 Federal Supplementary Medical Insurance  
12 Trust Fund, the Secretary shall, for fiscal  
13 year 2003 and each subsequent fiscal year,  
14 transfer to the Medical Education Trust  
15 Fund an amount equal to the amount esti-  
16 mated by the Secretary under subpara-  
17 graph (B).

18 “(ii) ALLOCATION.—Of the amount  
19 transferred under clause (i)—

20 “(I) there shall be allocated and  
21 transferred to the Medical School Ac-  
22 count of such Trust Fund an amount  
23 which bears the same ratio to the  
24 total amount available under section  
25 2202(b)(1) for the fiscal year (re-

1           duced by the balance in such account  
2           at the end of the preceding fiscal  
3           year) as the amount transferred under  
4           clause (i) bears to the total amounts  
5           transferred to such Trust Fund under  
6           title XXII (excluding amounts trans-  
7           ferred under subsections (c)(3) and  
8           (d) of section 2201) for such fiscal  
9           year; and

10                   “(II) the remainder shall be allo-  
11                   cated and transferred to the Medicare  
12                   Teaching Hospital Direct Account of  
13                   such Trust Fund.

14                   “(B) DETERMINATION OF AMOUNTS.—For  
15           each hospital, the Secretary shall make an esti-  
16           mate for the fiscal year involved of the amount  
17           that would have been paid under subsection (h)  
18           to the hospital during the fiscal year if such  
19           payments had not been terminated for cost re-  
20           porting periods beginning after September 30,  
21           2002.

22                   “(C) ALLOCATION BETWEEN FUNDS.—In  
23           providing for a transfer under subparagraph  
24           (A) for a fiscal year, the Secretary shall provide  
25           for an allocation of the amounts involved be-

1           tween part A and part B (and the trust funds  
2           established under the respective parts) as rea-  
3           sonably reflects the proportion of direct grad-  
4           uate medical education costs of hospitals associ-  
5           ated with the provision of services under each  
6           respective part.”.

7   **SEC. 4. AMENDMENTS TO MEDICAID PROGRAM.**

8           (a) IN GENERAL.—Title XIX of the Social Security  
9   Act (42 U.S.C. 1396 et seq.) is amended by adding at  
10   the end the following:

11                   “TRANSFER OF FUNDS TO ACCOUNTS

12           “SEC. 1936. (a) TRANSFER OF FUNDS.—

13                   “(1) IN GENERAL.—For fiscal year 2003 and  
14           each subsequent fiscal year, the Secretary shall  
15           transfer to the Medical Education Trust Fund es-  
16           tablished under title XXII an amount equal to the  
17           amount determined under subsection (b).

18                   “(2) ALLOCATION.—Of the amount transferred  
19           under paragraph (1)—

20                           “(A) there shall be allocated and trans-  
21                   ferred to the Medical School Account of such  
22                   Trust Fund an amount which bears the same  
23                   ratio to the total amount available under sec-  
24                   tion 2202(b)(1) for the fiscal year (reduced by  
25                   the balance in such account at the end of the  
26                   preceding fiscal year) as the amount transferred

1 under paragraph (1) bears to the total amounts  
2 transferred to such Trust Fund (excluding  
3 amounts transferred under subsections (c)(3)  
4 and (d) of section 2201) for such fiscal year;  
5 and

6 “(B) the remainder shall be allocated and  
7 transferred to the Non-Medicare Teaching Hos-  
8 pital Indirect Account and the Non-Medicare  
9 Teaching Hospital Direct Account of such  
10 Trust Fund, in the same proportion as the  
11 amounts transferred to each account under sec-  
12 tion 1886(m) relate to the total amounts trans-  
13 ferred under such section for such fiscal year.

14 “(b) AMOUNT DETERMINED.—

15 “(1) OUTLAYS FOR ACUTE MEDICAL SERVICES  
16 DURING PRECEDING FISCAL YEAR.—Beginning with  
17 fiscal year 2003, the Secretary shall determine 5  
18 percent of the total amount of Federal outlays made  
19 under this title for acute medical services, as defined  
20 in paragraph (2), for the preceding fiscal year.

21 “(2) ACUTE MEDICAL SERVICES DEFINED.—  
22 The term ‘acute medical services’ means items and  
23 services described in section 1905(a) other than the  
24 following:

1           “(A) Nursing facility services (as defined  
2 in section 1905(f)).

3           “(B) Services furnished in an intermediate  
4 care facility for the mentally retarded (as de-  
5 fined in section 1905(d)).

6           “(C) Personal care services (as described  
7 in section 1905(a)(24)).

8           “(D) Private duty nursing services (as re-  
9 ferred to in section 1905(a)(8)).

10          “(E) Home or community-based services  
11 furnished under a waiver granted under sub-  
12 section (c), (d), or (e) of section 1915.

13          “(F) Home and community care furnished  
14 to functionally disabled elderly individuals  
15 under section 1929.

16          “(G) Community supported living arrange-  
17 ments services under section 1930.

18          “(H) Case-management services (as de-  
19 scribed in section 1915(g)(2)).

20          “(I) Home health care services (as referred  
21 to in section 1905(a)(7)), clinic services, and re-  
22 habilitation services that are furnished to an in-  
23 dividual who has a condition or disability that  
24 qualifies the individual to receive any of the  
25 services described in a previous subparagraph.

1           “(J) Services furnished in an institution  
2           for mental diseases (as defined in section  
3           1905(i)).

4           “(c) ENTITLEMENT.—This section constitutes budget  
5 authority in advance of appropriations Acts and rep-  
6 resents the obligation of the Federal Government to pro-  
7 vide for the payment to the Non-Medicare Teaching Hos-  
8 pital Indirect Account, the Non-Medicare Teaching Hos-  
9 pital Direct Account, and the Medical School Account of  
10 amounts determined in accordance with subsections (a)  
11 and (b).”.

12           (b) EFFECTIVE DATE.—The amendment made by  
13 subsection (a) shall be effective on and after October 1,  
14 2002.

15 **SEC. 5. ASSESSMENTS ON INSURED AND SELF-INSURED**  
16 **HEALTH PLANS.**

17           (a) GENERAL RULE.—Subtitle D of the Internal Rev-  
18 enue Code of 1986 (relating to miscellaneous excise taxes)  
19 is amended by adding after chapter 36 the following new  
20 chapter:

21           **“CHAPTER 37—HEALTH RELATED**  
22           **ASSESSMENTS**

          “SUBCHAPTER A. Insured and self-insured health plans.

1     **“Subchapter A—Insured and Self-Insured**  
 2                     **Health Plans**

“Sec. 4501. Health insurance and health-related administrative services.

“Sec. 4502. Self-insured health plans.

“Sec. 4503. Transfer to accounts.

“Sec. 4504. Definitions and special rules.

3     **“SEC. 4501. HEALTH INSURANCE AND HEALTH-RELATED**  
 4                     **ADMINISTRATIVE SERVICES.**

5             “(a) IMPOSITION OF TAX.—There is hereby  
 6 imposed—

7                 “(1) on each taxable health insurance policy, a  
 8 tax equal to 1.5 percent of the premiums received  
 9 under such policy, and

10                “(2) on each amount received for health-related  
 11 administrative services, a tax equal to 1.5 percent of  
 12 the amount so received.

13             “(b) LIABILITY FOR TAX.—

14                “(1) HEALTH INSURANCE.—The tax imposed  
 15 by subsection (a)(1) shall be paid by the issuer of  
 16 the policy.

17                “(2) HEALTH-RELATED ADMINISTRATIVE SERV-  
 18 ICES.—The tax imposed by subsection (a)(2) shall  
 19 be paid by the person providing the health-related  
 20 administrative services.

21             “(c) TAXABLE HEALTH INSURANCE POLICY.—For  
 22 purposes of this section—

1           “(1) IN GENERAL.—Except as otherwise pro-  
2           vided in this section, the term ‘taxable health insur-  
3           ance policy’ means any insurance policy providing  
4           accident or health insurance with respect to individ-  
5           uals residing in the United States.

6           “(2) EXEMPTION OF CERTAIN POLICIES.—The  
7           term ‘taxable health insurance policy’ does not in-  
8           clude any insurance policy if substantially all of the  
9           coverage provided under such policy relates to—

10                   “(A) liabilities incurred under workers’  
11                   compensation laws,

12                   “(B) tort liabilities,

13                   “(C) liabilities relating to ownership or use  
14                   of property,

15                   “(D) credit insurance, or

16                   “(E) such other similar liabilities as the  
17                   Secretary may specify by regulations.

18           “(3) SPECIAL RULE WHERE POLICY PROVIDES  
19           OTHER COVERAGE.—In the case of any taxable  
20           health insurance policy under which amounts are  
21           payable other than for accident or health coverage,  
22           in determining the amount of the tax imposed by  
23           subsection (a)(1) on any premium paid under such  
24           policy, there shall be excluded the amount of the

1 charge for the nonaccident or nonhealth coverage  
2 if—

3 “(A) the charge for such nonaccident or  
4 nonhealth coverage is either separately stated in  
5 the policy, or furnished to the policyholder in a  
6 separate statement, and

7 “(B) such charge is reasonable in relation  
8 to the total charges under the policy.

9 In any other case, the entire amount of the premium  
10 paid under such policy shall be subject to tax under  
11 subsection (a)(1).

12 “(4) TREATMENT OF PREPAID HEALTH COV-  
13 ERAGE ARRANGEMENTS.—

14 “(A) IN GENERAL.—In the case of any ar-  
15 rangement described in subparagraph (B)—

16 “(i) such arrangement shall be treated  
17 as a taxable health insurance policy,

18 “(ii) the payments or premiums re-  
19 ferred to in subparagraph (B)(i) shall be  
20 treated as premiums received for a taxable  
21 health insurance policy, and

22 “(iii) the person referred to in sub-  
23 paragraph (B)(i) shall be treated as the  
24 issuer.

1           “(B) DESCRIPTION OF ARRANGEMENTS.—

2           An arrangement is described in this subpara-  
3           graph if under such arrangement—

4                   “(i) fixed payments or premiums are  
5                   received as consideration for any person’s  
6                   agreement to provide or arrange for the  
7                   provision of accident or health coverage to  
8                   residents of the United States, regardless  
9                   of how such coverage is provided or ar-  
10                  ranged to be provided, and

11                   “(ii) substantially all of the risks of  
12                   the rates of utilization of services is as-  
13                   sumed by such person or the provider of  
14                   such services.

15           “(d) HEALTH-RELATED ADMINISTRATIVE SERV-  
16           ICES.—For purposes of this section, the term ‘health-re-  
17           lated administrative services’ means—

18                   “(1) the processing of claims or performance of  
19                   other administrative services in connection with acci-  
20                   dent or health coverage under a taxable health in-  
21                   surance policy if the charge for such services is not  
22                   included in the premiums under such policy, and

23                   “(2) processing claims, arranging for provision  
24                   of accident or health coverage, or performing other  
25                   administrative services in connection with an appli-

1 cable self-insured health plan (as defined in section  
2 4502(e)) established or maintained by a person  
3 other than the person performing the services.

4 For purposes of paragraph (1), rules similar to the rules  
5 of subsection (c)(3) shall apply.

6 **“SEC. 4502. SELF-INSURED HEALTH PLANS.**

7 “(a) IMPOSITION OF TAX.—In the case of any appli-  
8 cable self-insured health plan, there is hereby imposed a  
9 tax for each month equal to 1.5 percent of the sum of—

10 “(1) the accident or health coverage expendi-  
11 tures for such month under such plan, and

12 “(2) the administrative expenditures for such  
13 month under such plan to the extent such expendi-  
14 tures are not subject to tax under section 4501.

15 In determining the amount of expenditures under para-  
16 graph (2), rules similar to the rules of subsection (d)(3)  
17 apply.

18 “(b) LIABILITY FOR TAX.—

19 “(1) IN GENERAL.—The tax imposed by sub-  
20 section (a) shall be paid by the plan sponsor.

21 “(2) PLAN SPONSOR.—For purposes of para-  
22 graph (1), the term ‘plan sponsor’ means—

23 “(A) the employer in the case of a plan es-  
24 tablished or maintained by a single employer,

1           “(B) the employee organization in the case  
2 of a plan established or maintained by an em-  
3 ployee organization, or

4           “(C) in the case of—

5                 “(i) a plan established or maintained  
6 by 2 or more employers or jointly by 1 or  
7 more employers and 1 or more employee  
8 organizations,

9                 “(ii) a voluntary employees’ bene-  
10 ficiary association under section 501(c)(9),  
11 or

12                 “(iii) any other association plan,  
13 the association, committee, joint board of trust-  
14 ees, or other similar group of representatives of  
15 the parties who establish or maintain the plan.

16           “(c) APPLICABLE SELF-INSURED HEALTH PLAN.—  
17 For purposes of this section, the term ‘applicable self-in-  
18 sured health plan’ means any plan for providing accident  
19 or health coverage if any portion of such coverage is pro-  
20 vided other than through an insurance policy.

21           “(d) ACCIDENT OR HEALTH COVERAGE EXPENDI-  
22 TURES.—For purposes of this section—

23                 “(1) IN GENERAL.—The accident or health cov-  
24 erage expenditures of any applicable self-insured  
25 health plan for any month are the aggregate expend-

1 itures paid in such month for accident or health cov-  
2 erage provided under such plan to the extent such  
3 expenditures are not subject to tax under section  
4 4501.

5 “(2) TREATMENT OF REIMBURSEMENTS.—In  
6 determining accident or health coverage expenditures  
7 during any month of any applicable self-insured  
8 health plan, reimbursements (by insurance or other-  
9 wise) received during such month shall be taken into  
10 account as a reduction in accident or health coverage  
11 expenditures.

12 “(3) CERTAIN EXPENDITURES DISREGARDED.—  
13 Paragraph (1) shall not apply to any expenditure for  
14 the acquisition or improvement of land or for the ac-  
15 quisition or improvement of any property to be used  
16 in connection with the provision of accident or  
17 health coverage which is subject to the allowance  
18 under section 167, except that, for purposes of para-  
19 graph (1), allowances under section 167 shall be  
20 considered as expenditures.

21 **“SEC. 4503. TRANSFER TO ACCOUNTS.**

22 “For fiscal year 2003 and each subsequent fiscal  
23 year, there are hereby appropriated and transferred to the  
24 Medical Education Trust Fund under title XXII of the

1 Social Security Act amounts equivalent to taxes received  
2 in the Treasury under sections 4501 and 4502, of which—

3           “(1) there shall be allocated and transferred to  
4 the Medical School Account of such Trust Fund an  
5 amount which bears the same ratio to the total  
6 amount available under section 2202(b)(1) of such  
7 Act for the fiscal year (reduced by the balance in  
8 such account at the end of the preceding fiscal year)  
9 as the amount transferred to such Trust Fund  
10 under this section bears to the total amounts trans-  
11 ferred to such Trust Fund (excluding amounts  
12 transferred under subsections (c)(3) and (d) of sec-  
13 tion 2201 of such Act) for such fiscal year; and

14           “(2) the remainder shall be allocated and trans-  
15 ferred to the Non-Medicare Teaching Hospital Indi-  
16 rect Account and the Non-Medicare Teaching Hos-  
17 pital Direct Account of such Trust Fund, in the  
18 same proportion as the amounts transferred to such  
19 account under section 1886(m) of such Act relate to  
20 the total amounts transferred under such section for  
21 such fiscal year.

22 Such amounts shall be transferred in the same manner  
23 as under section 9601.

1 **“SEC. 4504. DEFINITIONS AND SPECIAL RULES.**

2 “(a) **DEFINITIONS.**—For purposes of this  
3 subchapter—

4 “(1) **ACCIDENT OR HEALTH COVERAGE.**—The  
5 term ‘accident or health coverage’ means any cov-  
6 erage which, if provided by an insurance policy,  
7 would cause such policy to be a taxable health insur-  
8 ance policy (as defined in section 4501(c)).

9 “(2) **INSURANCE POLICY.**—The term ‘insurance  
10 policy’ means any policy or other instrument where-  
11 by a contract of insurance is issued, renewed, or ex-  
12 tended.

13 “(3) **PREMIUM.**—The term ‘premium’ means  
14 the gross amount of premiums and other consider-  
15 ation (including advance premiums, deposits, fees,  
16 and assessments) arising from policies issued by a  
17 person acting as the primary insurer, adjusted for  
18 any return or additional premiums paid as a result  
19 of endorsements, cancellations, audits, or retrospec-  
20 tive rating. Amounts returned where the amount is  
21 not fixed in the contract but depends on the experi-  
22 ence of the insurer or the discretion of management  
23 shall not be included in return premiums.

24 “(4) **UNITED STATES.**—The term ‘United  
25 States’ includes any possession of the United States.

26 “(b) **TREATMENT OF GOVERNMENTAL ENTITIES.**—

1           “(1) IN GENERAL.—For purposes of this  
2 subchapter—

3           “(A) the term ‘person’ includes any gov-  
4 ernmental entity, and

5           “(B) notwithstanding any other law or rule  
6 of law, governmental entities shall not be ex-  
7 empt from the taxes imposed by this subchapter  
8 except as provided in paragraph (2).

9           “(2) EXEMPT GOVERNMENTAL PROGRAMS.—

10           “(A) IN GENERAL.—In the case of an ex-  
11 empt governmental program—

12           “(i) no tax shall be imposed under  
13 section 4501 on any premium received pur-  
14 suant to such program or on any amount  
15 received for health-related administrative  
16 services pursuant to such program, and

17           “(ii) no tax shall be imposed under  
18 section 4502 on any expenditures pursuant  
19 to such program.

20           “(B) EXEMPT GOVERNMENTAL PRO-  
21 GRAM.—For purposes of this paragraph, the  
22 term ‘exempt governmental program’ means—

23           “(i) the insurance programs estab-  
24 lished by parts A and B of title XVIII of  
25 the Social Security Act,

1           “(ii) the medical assistance program  
2           established by title XIX of the Social Secu-  
3           rity Act,

4           “(iii) any program established by Fed-  
5           eral law for providing medical care (other  
6           than through insurance policies) to individ-  
7           uals (or the spouses and dependents there-  
8           of) by reason of such individuals being—

9                       “(I) members of the Armed  
10                      Forces of the United States, or

11                     “(II) veterans, and

12           “(iv) any program established by Fed-  
13           eral law for providing medical care (other  
14           than through insurance policies) to mem-  
15           bers of Indian tribes (as defined in section  
16           4(d) of the Indian Health Care Improve-  
17           ment Act).

18           “(c) NO COVER OVER TO POSSESSIONS.—Notwith-  
19           standing any other provision of law, no amount collected  
20           under this subchapter shall be covered over to any posses-  
21           sion of the United States.”.

22           (b) CLERICAL AMENDMENT.—The table of chapters  
23           for subtitle D of the Internal Revenue Code of 1986 is  
24           amended by inserting after the item relating to chapter  
25           36 the following new item:

                          “CHAPTER 37. Health related assessments.”

1       (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply with respect to premiums received,  
3 and expenses incurred, with respect to coverage for peri-  
4 ods after September 30, 2002.

5 **SEC. 6. MEDICAL EDUCATION ADVISORY COMMISSION.**

6       (a) ESTABLISHMENT.—There is hereby established  
7 an advisory commission to be known as the Medical Edu-  
8 cation Advisory Commission (in this section referred to as  
9 the “Advisory Commission”).

10       (b) DUTIES.—

11           (1) IN GENERAL.—The Advisory Commission  
12 shall—

13                   (A) conduct a thorough study of all mat-  
14 ters relating to—

15                           (i) the operation of the Medical Edu-  
16 cation Trust Fund established under sec-  
17 tion 2201 of the Social Security Act (as  
18 added by section 2);

19                           (ii) alternative and additional sources  
20 of graduate medical education funding;

21                           (iii) alternative methodologies for  
22 compensating teaching hospitals for grad-  
23 uate medical education;

- 1 (iv) policies designed to maintain su-  
2 perior research and educational capacities  
3 in an increasing competitive health system;
- 4 (v) the role of medical schools in grad-  
5 uate medical education;
- 6 (vi) policies designed to expand eligi-  
7 bility for graduate medical education pay-  
8 ments to children's hospitals that operate  
9 graduate medical education programs; and
- 10 (vii) policies designed to expand eligi-  
11 bility for graduate medical education pay-  
12 ments to institutions other than teaching  
13 hospitals;
- 14 (B) develop recommendations, including  
15 the use of demonstration projects, on the mat-  
16 ters studied under subparagraph (A) in con-  
17 sultation with the Secretary of Health and  
18 Human Services and the entities described in  
19 paragraph (2);
- 20 (C) not later than January 2004, submit  
21 an interim report to the Committee on Finance  
22 of the Senate, the Committee on Ways and  
23 Means of the House of Representatives, and the  
24 Secretary of Health and Human Services; and

1 (D) not later than January 2006, submit  
2 a final report to the Committee on Finance of  
3 the Senate, the Committee on Ways and Means  
4 of the House of Representatives, and the Sec-  
5 retary of Health and Human Services.

6 (2) ENTITIES DESCRIBED.—The entities de-  
7 scribed in this paragraph are—

8 (A) other advisory groups, including the  
9 Council on Graduate Medical Education and  
10 the Medicare Payment Advisory Commission;

11 (B) interested parties, including the Asso-  
12 ciation of American Medical Colleges, the Asso-  
13 ciation of Academic Health Centers, and the  
14 American Medical Association;

15 (C) health care insurers, including man-  
16 aged care entities; and

17 (D) other entities as determined by the  
18 Secretary of Health and Human Services.

19 (c) NUMBER AND APPOINTMENT.—The membership  
20 of the Advisory Commission shall include 9 individuals  
21 who are appointed to the Advisory Commission from  
22 among individuals who are not officers or employees of  
23 the United States. Such individuals shall be appointed by  
24 the Secretary of Health and Human Services, and shall  
25 include individuals from each of the following categories:

1           (1) Physicians who are faculty members of  
2           medical schools.

3           (2) Officers or employees of teaching hospitals.

4           (3) Officers or employees of health plans.

5           (4) Deans of medical schools.

6           (5) Such other individuals as the Secretary de-  
7           termines to be appropriate.

8           (d) TERMS.—

9           (1) IN GENERAL.—Except as provided in para-  
10          graph (2), members of the Advisory Commission  
11          shall serve for the lesser of the life of the Advisory  
12          Commission, or 4 years.

13          (2) SERVICE BEYOND TERM.—A member of the  
14          Advisory Commission may continue to serve after  
15          the expiration of the term of the member until a  
16          successor is appointed.

17          (e) VACANCIES.—If a member of the Advisory Com-  
18          mission does not serve the full term applicable under sub-  
19          section (d), the individual appointed to fill the resulting  
20          vacancy shall be appointed for the remainder of the term  
21          of the predecessor of the individual.

22          (f) CHAIR.—The Secretary of Health and Human  
23          Services shall designate an individual to serve as the Chair  
24          of the Advisory Commission.

1 (g) MEETINGS.—The Advisory Commission shall  
2 meet not less than once during each 4-month period and  
3 shall otherwise meet at the call of the Secretary of Health  
4 and Human Services or the Chair.

5 (h) COMPENSATION AND REIMBURSEMENT OF EX-  
6 PENSES.—Members of the Advisory Commission shall re-  
7 ceive compensation for each day (including travel time) en-  
8 gaged in carrying out the duties of the Advisory Commis-  
9 sion. Such compensation may not be in an amount in ex-  
10 cess of the maximum rate of basic pay payable for level  
11 IV of the Executive Schedule under section 5315 of title  
12 5, United States Code.

13 (i) STAFF.—

14 (1) STAFF DIRECTOR.—The Advisory Commis-  
15 sion shall, without regard to the provisions of title  
16 5, United States Code, relating to competitive serv-  
17 ice, appoint a Staff Director who shall be paid at a  
18 rate equivalent to a rate established for the Senior  
19 Executive Service under 5382 of title 5, United  
20 States Code.

21 (2) ADDITIONAL STAFF.—The Secretary of  
22 Health and Human Services shall provide to the Ad-  
23 visory Commission such additional staff, informa-  
24 tion, and other assistance as may be necessary to  
25 carry out the duties of the Advisory Commission.

1 (j) TERMINATION OF THE ADVISORY COMMISSION.—  
2 The Advisory Commission shall terminate 90 days after  
3 the date on which the Advisory Commission submits its  
4 final report under subsection (b)(1)(D).

5 (k) AUTHORIZATION OF APPROPRIATIONS.—There  
6 are authorized to be appropriated such sums as may be  
7 necessary to carry out the purposes of this section.

8 **SEC. 7. DEMONSTRATION PROJECTS.**

9 (a) ESTABLISHMENT.—The Secretary of Health and  
10 Human Services (in this section referred to as the “Sec-  
11 retary”) shall establish, by regulation, guidelines for the  
12 establishment and operation of demonstration projects  
13 which the Medical Education Advisory Commission rec-  
14 ommends under section 6(b)(1)(B).

15 (b) FUNDING.—

16 (1) IN GENERAL.—For any fiscal year after fis-  
17 cal year 2002, amounts in the Medical Education  
18 Trust Fund under title XXII of the Social Security  
19 Act shall be available for use by the Secretary in the  
20 establishment and operation of demonstration  
21 projects described in subsection (a).

22 (2) FUNDS AVAILABLE.—

23 (A) LIMITATION.—Not more than  $\frac{1}{10}$  of 1  
24 percent of the funds in such Trust Fund shall  
25 be available for the purposes of paragraph (1).

1           (B) ALLOCATION.—Amounts under para-  
2           graph (1) shall be paid from the accounts es-  
3           tablished under paragraphs (2) through (5) of  
4           section 2201(a) of the Social Security Act, in  
5           the same proportion as the amounts transferred  
6           to such accounts bears to the total of amounts  
7           transferred to all 4 such accounts for such fis-  
8           cal year.

9           (c) LIMITATION.—Nothing in this section shall be  
10          construed to authorize any change in the payment method-  
11          ology for teaching hospitals and medical schools estab-  
12          lished by the amendments made by this Act.

○