



Key Components of the FY 2008 President's Budget

February 6, 2007



Outline

- I. Overview
- II. Medicare
- III. Medicaid
- IV. State Children's Health Insurance Program (SCHIP)
- V. Health Insurance Reform
- VI. Health Information Technology (HIT)
- VII. Other Proposed Health Care Spending

I. Overview

- President proposes to balance the budget by 2012
 - » Actual deficit in FY 2006 was 1.9% of GDP (\$248 billion) as compared to previously projected deficit of 3.2% of GDP (\$423 billion)
 - The FY 2008 President's Budget proposes additional budget restraint
 - » Keeps growth in non-security discretionary spending below inflation (at 1%) in 2008 and over next five years
 - » Eliminates or reduces spending on 141 federal programs deemed low-priority or ineffective, for a savings of \$12 billion
 - » Cuts entitlement spending by \$96 billion over the next five years, including nearly \$73 billion in Medicare, Medicaid and SCHIP spending
 - » Proposes discretionary spending caps and a pay-as-you-go requirement for mandatory spending
 - Proposes to make permanent tax relief enacted in 2001 and 2003
 - Calls on Congress to adopt legislative line-item veto and earmark reform
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Timeline for Development of Federal Budget

First Monday in February	President submits budget proposal to Congress
6 weeks after President's Budget Submission	Deadline for congressional committee chairs to submit "views and estimates" to the House and Senate Budget Committees
April 1	General deadline for House and Senate to pass respective budget resolutions; may include reconciliation instructions for Medicare and Medicaid budget cuts and/or tax changes
April 15	Target completion date for final congressional action on concurrent budget resolution; may include reconciliation instructions for Medicare and Medicaid budget cuts and/or tax changes
June 15	Target deadline for congressional action on reconciliation legislation (if necessary)
September 30	Target completion for congressional action on appropriations bills
October 1	Start of the new federal fiscal year

II. The President's Budget Proposes to Reduce Medicare Spending by \$75.9 Billion Over 5 Years

- Major legislative provider proposals* include:
 - » Hospital update at Market Basket (MB) - 0.65% annually starting FY 2008 (*savings \$13.8B/5 years*)
 - » Freeze home health payments from 2008 to 2012; home health update of MB - 0.65% annually thereafter (*savings \$9.7B/5 years*)
 - » Skilled nursing facility (SNF) update at 0% in 2008 and MB - 0.65% annually thereafter (*savings \$9.2B/5 years*)
 - » Outpatient hospital update at MB - 0.65% annually starting FY 2008 (*savings \$3.4B/5 years*)
 - » Introduce competitive bidding for clinical laboratory services (*savings \$2.4B/5 years*)

*Major proposals listed only; savings will not total \$75.9 billion



Medicare (cont.)

- Other major Medicare payments and subsidies proposals* include:
 - » Eliminate duplicate hospital Indirect Medical Education (IME) payments for Medicare Advantage beneficiaries (*savings \$4.4B/5 years*)
 - » Set base payment for 5 post-acute conditions** treated in SNF and inpatient rehabilitation facilities (IRF) (*savings \$2.9B/5 years*)
 - » Reduce rental period for oxygen equipment from 36 to 13 months (*savings \$2.4B/5 years*)
 - » Extend Medicare Secondary Payer status for end stage renal disease (ESRD) beneficiaries covered by large employers from 30 to 60 months (*savings \$1.1B/5 years*)
- Major* program integrity proposals include:
 - » Establish Federal data sharing clearinghouse to coordinate benefits with other Federal programs when Medicare is the secondary payer (*savings \$0.6B/5 years*)
 - » Phase out Medicare bad debt payments over 4 years (*savings \$7.2B/5 years*)

*Major proposals listed only; savings will not total \$75.9 billion

**Budget does not identify these conditions

Medicare (cont.)

- The President's Budget also includes administrative proposals designed to save \$10.2 billion over 5 years
- Savings will result from:
 - » Post-acute care provider reform
 - » Strengthening program integrity in payment systems
 - » Correcting for inappropriate provider payments
 - » Adjusting payments to encourage provider efficiency and productivity

■■■ President's Budget Proposes To Increase Premiums for High-Income Medicare Beneficiaries

- Proposes to eliminate annual indexing of income-related Part B premiums to increase number of affected individuals (*increased revenues of \$7.1B/5 years*)
- Proposes to establish income-related Part D premiums (*increased revenues of \$3.2B/5 years*)
 - » Part D premium subsidies would be reduced based on the same income thresholds that apply to reduced Part B premium subsidies, including the elimination of annual indexing of income thresholds

Medicare Proposals Reflect Focus on Price Transparency & Quality

- Budget reflects the President's focus on improving transparency of price and quality information in Medicare through HIT and payment initiatives
 - » CMS to continue to promote distribution of price and quality data to allow consumers to make informed choices by comparing the performance of health care providers

- Administration supports budget-neutral provider payment reform that encourages quality and efficiency while reducing complications and cost
 - » CMS plans to publish a DRA-mandated report on how to implement a value-based purchasing program in hospitals in 2009
 - » Budget proposes to adjust provider updates to account for gains in providers' productivity and efficiency
 - » CMS plans to implement reporting of quality measures for physicians, outpatient and ambulatory surgical centers, in addition to hospitals

Medicare Long-term Stability: 45% General Revenue Threshold Provision

- MMA created a new financial reporting measure that requires the Medicare Trustees to notify Congress when general revenues (i.e., non-dedicated Medicare revenues) are projected to exceed 45% of total Medicare financing
 - » President may submit legislation to Congress to address the growth in general revenue spending for Medicare
 - » Congress may consider the President's proposal on an expedited basis
- FY 2008 President's Budget re-introduces the same policy from FY 2007 Budget:
 - » If Congress fails to reduce Medicare spending to below 45% of general revenues in the first year that the trigger is met, CMS would be authorized to reduce all provider payments by 0.4 percentage points
 - » In each subsequent year that the trigger is met, CMS would reduce payments by an additional 0.4 percentage points
- The budget does not assume any savings due to this proposal because it would take effect outside of the reported 5-year budget window

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III. Medicaid: President's Budget Proposes \$25.7 Billion in Savings Over 5 Years

- The President's legislative proposals would reduce Medicaid spending by \$13 billion over 5 years
- Major legislative proposals* include:
 - » Set federal match rate for all administrative services at 50 percent, including reduction for services currently reimbursed at higher rate (*savings \$5.3B/5 years*)
 - » Recoup Medicaid administrative costs included in TANF block grant (*savings \$1.8B/5 years*)
 - » Reimburse for Targeted Case Management (TCM) at 50 percent (*savings \$1.2B/5 years*)
 - » Reduce the federal upper limit reimbursement for multiple source drugs to 150% of Average Manufacturer's Price (AMP) of the lowest-priced drug in the group (*savings \$1.2B/5 years*)
 - » Permit states to use managed formularies for prescription drugs (*savings \$0.9B/5 years*)
 - » Replace Medicaid Best Price with a flat rebate (*budget neutral*)
 - » Remove state option to increase the \$500,000 home equity limit to determine disqualifications for Medicaid Long-Term Care benefits (*savings \$0.4B/5 years*)

*Major proposals listed only; savings will not total to \$13B.



Medicaid (cont.)

- The budget includes administrative proposals that would reduce Medicaid spending by \$12.7 billion over 5 years
- Major administrative proposals* include:
 - » CMS will curb diversion of funds from government providers to states and cap payments to government providers (*savings \$5.0B/5 years*)
 - » CMS will phase out Medicaid reimbursement for school-based transportation and administrative services (*savings \$3.6B/5 years*)
 - » CMS will issue regulations eliminating Medicaid funding of Gradual Medical Education (GME) (*savings \$1.8B/5 years*)
 - » CMS will issue regulations defining allowable rehabilitation services (*savings \$2.3B/5 years*)

*Major proposals listed only; remaining proposals are budget-neutral.



■■■ Medicaid: President's Budget Also Proposes Legislative Action To Extend TMA and QI Programs

- Proposes to extend Transitional Medical Assistance (TMA), which provides up to 12 months of Medicaid coverage for families who have lost welfare cash benefits due to increased earnings through September 30, 2008
- Proposes to extend Qualified Individuals (QI) program, which provides premium assistance for Medicare beneficiaries with incomes 120 - 135% of the Federal poverty level (FPL) through September 30, 2008

IV. SCHIP: President Proposes Reauthorization and Increase in Funding of \$5 Billion Over 5 Years

- The President's budget proposes to reauthorize SCHIP for 5 additional years and sets a goal of maintaining current SCHIP enrollment levels
- Budget proposes to re-focus SCHIP on uninsured children with incomes below 200% FPL (13 states currently provide coverage above 200% FPL)*
- Budget seeks authority to target SCHIP funds more efficiently to states with greatest need
- Proposes additional \$5 billion/5 years over current allotment levels

*CA, CT, GA, MD, MN, NH, MO, NJ, NM, NY, RI, VT, WA

V. Health Insurance Reform: President's Budget Proposes Tax Code Reform

- President proposes replacing existing tax exclusion for employer-sponsored health insurance with a flat deduction for all individuals and families who purchase coverage
 - » Deduction would equal \$7,500 individuals/\$15,000 families
 - » Permitted for those with at least catastrophic health insurance coverage
- Other proposals are designed to improve affordability of health insurance purchased by individuals:
 - » Authorizing association health plans
 - » Creating a competitive health insurance marketplace across state lines
 - » Reforming medical liability laws

Reforming the Health Care System To Cover the Uninsured

- President requests that Secretary of HHS work with Congress and the states on an Affordable Choices initiative
- Budget principles for the initiative include:
 - » Health care system can operate more efficiently if some portion of institutional payments are redirected to help individuals afford health insurance coverage
 - » Reforms should be state-based and budget-neutral within health care spending, and not create a new entitlement
 - » Federal government should maintain its commitment to the neediest and most vulnerable populations
 - » States are best situated to craft innovative solutions to move people into affordable coverage

VI. HIT: The President's Budget Proposes \$165 Million in HIT Investments Across HHS

- Budget proposes \$118 million for Office of the National Coordinator (ONC) in 2008 for strategic planning, coordination, and analysis of technical and economic issues related to public and private adoption of HIT
 - » Encourage HIT adoption by implementing AHIC recommendations and developing a new Partnership for Health and Care Improvement to eventually take over AHIC responsibilities
 - » Establish a fund within HHS for developing health data standards
- Budget proposes \$45 million for Agency for Healthcare Research and Quality for HIT investments designed to enhance patient safety
 - » Emphasis on ambulatory patient care
- Budget proposes \$2 million for the Assistant Secretary for Planning and Evaluation for independent evaluations of electronic health records adoption and economic factors influencing HIT implementation

VII: Other Proposed Health Care Spending

- FY 2008 Budget totals \$67.6 billion in HHS discretionary program spending, which is an increase of \$1.6 billion over the FY 2007 President's Budget
- Food and Drug Administration (FDA):
 - » Proposes a new industry-funded generic drug user fee, generating \$16 million in FY 2008, to make generic drugs available to the public sooner
 - » Re-proposes user-fees for re-inspections of manufacturing and lab facilities due to violations identified at the first inspection
- Health Resources and Services Administration (HRSA):
 - » Proposes establishing 220 new health centers and expand 120 sites including up to 120 in high-poverty counties
 - » Proposes \$2.2 billion for Ryan White activities
- Pandemic Influenza: Proposes a total of \$1.2 billion for pandemic flu preparedness
- Bioterrorism/Biodefense and Other Health Emergencies: Proposes \$4.3 billion in bioterrorism preparedness activities, including \$1.5 billion for Centers for Disease Control and Prevention (CDC)