



## Summary of the Health Provisions within the President's Deficit Reduction Proposal

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Today, President Obama unveiled his \$3 T deficit reduction proposal – equally split between tax and non-tax reductions. Within the \$1.5 T of tax reductions, about \$800 billion of that would come from the expiration of the Bush-era tax cuts for upper-income Americans. The other \$700 billion consists of revenue increases achieved by closing loopholes, limiting deductions for those earning more than \$250,000 a year, and getting rid of tax breaks for oil and gas companies.

Within the \$1.5 T of non-tax reductions, about \$1 trillion in savings is also expected from winding down the wars in Iraq and Afghanistan. The rest (about \$580 billion of savings in entitlement programs) is split between \$248 billion reductions in Medicare, \$72 billion reductions in Medicaid, and \$180 billion cuts to other mandatory programs, such as farm programs.

**Medicare savings.** The \$248 billion in Medicare savings includes:

- Altering Medicare drug payment policies including:
  - Allowing Medicare to benefit from the same rebates that Medicaid receives for brand name and generic drugs provided to beneficiaries who receive the Medicare Low-Income Subsidy beginning in 2013 (savings of \$135 billion over 10 years),
  - Increasing Medicare Parts Band D premiums for higher-income beneficiaries, beginning in 2017 while freezing the income thresholds until 25 percent of beneficiaries pay the higher premium (savings of approximately \$20 billion over 10 years).
- Altering provider payments including:
  - Reducing bad debt payments to 25 percent for all eligible providers over three years starting in 2013 (savings of approximately \$20 billion over 10 years).
  - Reducing the Indirect Medical Education (IME) add-on payments by 10 percent beginning in FY 2013 (savings of approximately \$9 billion over 10 years).
  - Reducing rural provider payments (savings of \$6 billion over 10 years).
- Include incentives for people with Medicare to choose high-value health services, including:
  - Modifying Medicare Part B deductible for new beneficiaries by applying a \$25 increase to the Part B deductible in 2017, 2019, and 2021 for new beneficiaries (savings of approx approximately \$1 billion over 10 years).
  - Introducing home health copayment of \$100 per home health episode, applicable for episodes with five or more visits not preceded by a hospital or other inpatient post-acute care stay, beginning in 2017 (savings of approximately \$0.4 billion over 10 years).
  - Adding a Part B premium surcharge equivalent to about 15 percent of the average Medigap premium for new beneficiaries that purchase Medigap policies with particularly low cost-sharing requirements, starting in 2017 (savings of approximately \$2.5 billion over 10 years).
- Reform Medicare payments to better align with patient care costs (savings of \$5 billion over 10 years), including:

- recovering erroneous payments made to insurers participating in Medicare Advantage;
- dedicating penalties for failure to use electronic health records toward deficit reduction;
- updating Medicare payments to more appropriately account for utilization of advanced imaging; and
- requiring prior authorization for advanced imaging.
- Accelerate the availability of lower-cost generic drugs by:
  - prohibiting "pay for delay" agreements to increase the availability of generic drugs and biologics;
  - reducing the exclusivity period for brand name biologics; and
  - streamlining Federal Employee Health Benefit (FEHB) pharmacy contracting.
- Create payment incentives for skilled nursing facilities (SNFs) and other providers to improve their care to prevent avoidable hospital readmissions (**savings of \$42 B over 10 years**), which includes:
  - Adjusting payment rate updates in 2014 through 2021 for SNFs, inpatient rehabilitation facilities, and others.
  - Reducing the differences in payment by inpatient rehabilitation facilities (IRFs) and SNFs for treatment of specified conditions to encourage care in the most clinically appropriate setting beginning in FY 2013.
  - Updating compliance requirements to better ensure that the higher IRF payments apply to cases requiring this level of care.
  - Reducing SNF payments by up to 3 percent beginning in FY 2015 for facilities with high rates of care-sensitive, preventable hospital readmissions.
- Strengthening the Independent Payment Advisory Board (IPAB) by reducing its growth rate target (from GDP per capita plus 1 percent to plus 0.5 percent) and providing additional tools like the ability to consider value-based benefit design and enforcement mechanisms.

**Medicaid reductions.** The \$73 billion in Medicaid and other health program savings include phased-in reforms and targeted savings and flexibility for States. The President's proposals:

- Limit Medicaid provider taxes, beginning in 2015 (**savings of approximately \$26.3 billion over 10 years**).
- Simplify Federal Medicaid payment formulas for States by providing a single matching rate specific to each State based on enrollment starting in 2014 that automatically increases if a recession forces enrollment and State costs to rise. (**savings of \$14.9 billion over 10 years**).
- Reduce Medicaid spending on certain durable medical equipment services to what Medicare would have paid in the same State for the same services (**savings of \$4.2 billion for the Federal government and more than \$3 B for State governments over 10 years**).
- Re-base Medicaid formula for disproportionate share hospital payments (**savings of \$4.1 billion over 10 years**).
- Updating Medicaid income definition based on an individual's or family's modified adjusted gross income (MAGI) (**savings of \$14.6 billion over 10 years**).
- Increase State flexibility and streamline oversight in Medicaid by giving the State the flexibility to use a "benchmark" benefits plan for optional populations with income above 133 percent of the Federal poverty line as well as consolidate and streamline redundant error rate programs.
- Accelerate State innovation waivers.

- Reduce fraud, waste, and abuse in Medicaid (**savings of over \$1.4 billion over the next 10 year**) including:
  - Strengthening third-party liability for Medicaid beneficiary claims.
  - Requiring manufacturers that improperly report items for Medicaid drug coverage to fully repay States.
  - Tracking high prescribers and utilizers of prescription drugs in Medicaid.
  - Enforcing Medicaid drug rebate agreements.
  - Increasing penalties on drug manufacturers for fraudulent non-compliance with Medicaid drug rebate agreements.
  - Requiring drugs to be properly listed with the FDA to receive Medicaid coverage.
  - Prohibiting States from using Federal funds as the State share of Medicaid or CHIP, unless specifically authorized by law.

**Prevention and Public Health Fund.** Includes a proposed reduction of \$3.5 billion to the current funding, while maintaining \$13.8 billion in such fund (**savings of \$3.5 billion over 10 years**).