Weekly Checkup

Budget Week!

TARA O'NEILL HAYES | MARCH 15, 2019

You may have noticed (but possibly also forgotten already) that the president released his fiscal year 2020 budget this week. The health care headlines from the budget focused on the 12 percent cut to Health and Human Services (HHS) discretionary funding and the $845 billion cut to Medicare. **But what do those "cuts" entail, and what else is worth knowing about?**

First, let's keep in mind that this is the president's budget *request*, which is rarely, if ever, enacted into law (which may explain why it was only in the news for about six hours). **But it does provide insight into the administration's priorities and gives clues as to what the executive could try to do on its own**.

Regarding the 12 percent ($11.9 billion) cut to HHS discretionary funds, the bulk of those cuts come from a $4.5 billion cut to the National Institutes of Health, a $1.3 billion cut to the Centers for Diseases Control and Prevention, and other parts of the budget that do not relate to health care services.

As for the Medicare "cuts," it's important to note first that the $845 billion spending reduction is a 10-year projection (as opposed to the 12 percent cut mentioned above, which is for a single year). Second, **most of these "cuts" are projected *savings* that are expected to occur if various policies proposed in the budget are implemented**, not reductions in benefits or increases in costs to beneficiaries, as detailed by the Center for a Responsible Federal Budget. For instance, one-third of the cuts would result from implementing site-neutral payments, which would end the practice of over-paying for services provided in hospital-owned facilities. The budget proposes extending the rule implemented this year for off-campus hospital outpatient departments (HOPDs) to on-campus HOPDs, hospital-owned physician offices, and post-acute care facilities. Our current payment system pays substantially more for the same service when it is provided in a hospital-owned facility rather than a non-hospital-owned doctor's office; this discrepancy (as well as the 340B drug discount program) incentivizes hospitals to acquire independent physician practices, resulting in less competition and higher prices for patients and taxpayers. **It's kind of like when you buy your favorite bottle of wine from the store rather than at a restaurant—it's the same great wine for a third of the price.** That's pure savings, not cuts to the amount of wine you enjoy.

Another $137 billion in cuts may appropriately be classified as spending cuts. These cuts come from reductions in payments to hospitals for uncompensated care and coverage of bad debts.

The budget anticipates other savings from various proposals to reduce spending on prescription drugs. **Most of these savings, however, are projected from a proposal to modify the Medicare Part D benefit structure** in order to keep more people from reaching the catastrophic phase of their plans. This particular change was recommended years ago by the Medicare Payment Advisory Commission, and we at the American Action Forum have noted its benefits. It's a pretty weedy subject and gets a little complicated (if you want all the details, check out this piece), but the long and short of it is that since the government pays 80 percent of the costs in the catastrophic phase, there is a significant amount of money to be saved by having fewer beneficiaries reach the catastrophic phase. To read about this policy, its interactions with other proposed and enacted policy changes since it was first proposed, and a different idea for how to reform Part D that accounts for these changes, read this piece of mine.

CHART REVIEW

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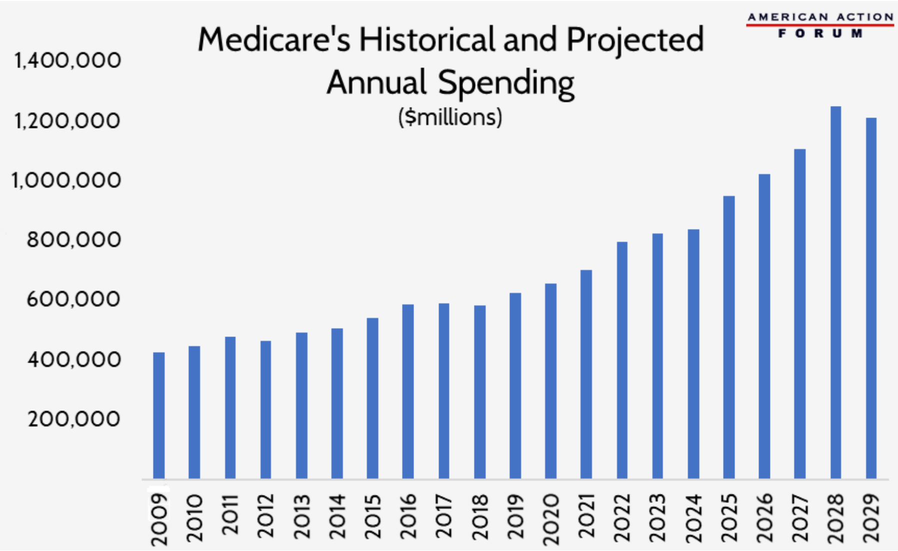
The following chart shows historical Medicare spending as well as spending as projected in the president's latest budget proposal. Even if the $846 billion in proposed Medicare spending reductions were implemented over the next decade, spending in 2029 would still be more than twice what it was in 2016, the year before President Trump took office.


Medicare's Historical and Projected Annual Spending
($millions)
AMERICAN ACTION FORUM
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
2009
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