Insight

The President's Health Care Budget By-the-Numbers

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Fulfilling his annual obligation to submit a budget to Congress, President Obama this morning released his $4 trillion federal budget, providing insight to his policy priorities for the year. The President's Fiscal Year 2016 budget proposal calls for $83.8 billion in discretionary funding for the Department of Health and Human Services; this is an increase of $4.8 billion from FY2015. More than one third of this funding is obligated to the National Institutes of Health to provide further investments in biomedical research, and particularly for the President's "Precision Medicine" initiative.

Mandatory health care spending will continue to grow out of control, increasing $77.8 billion in total in 2016 alone. Medicare spending is projected to reach $954 billion by 2025 under the president's proposal. However, the administration does expect its Medicare reform proposals to save $423.1 billion on net over 10 years. Spending on Medicaid will increase by roughly 62 percent over the next 10 years reaching $567 billion in 2025, in part due to the coverage expansion provided by the Affordable Care Act (ACA). The Children's Health Insurance Program (CHIP) is extended for four years under the president's budget proposal, through 2019. This comes at a cost of $14.6 billion and includes the increased federal match of 23 percent which was mandated by the ACA.

Medicare "Savings"

The Obama Administration is promoting the idea that the president's 2016 Budget includes $400 billion in savings from Medicare, some of which are intended to pay for an SGR repeal. As a rule, reducing the national deficit is a good thing, but large-scale cuts to established entitlement programs like Medicare should be done in a thoughtful manner.

New regulations on the exclusive sale of biologics will stymie pharmacological innovation at a savings of only $16 billion over 10 years. Reducing market-basket updates ($979 million) or Medicare Advantage coding-intensity ($36 billion) will decrease seniors' choice of plans and providers, and thereby limit their access to care. Other Medicare changes include structural reforms that the administration claims will save $83.8 billion over 10 years by increasing Part B premiums and deductibles, and introducing new home-health co-payments and surcharges on more generous Medigap coverage. Reductions of $31 billion in Medicare coverage of bad debts could also punish hospitals in low-income areas if not judiciously applied.

Some of the changes proposed by the budget do involve smart, gradual shifts in the Medicare program that are supported by industry stakeholders. For example, implementing bundled payment for post-acute care providers and creating incentives for care to be provided in the most appropriate setting would save $38.7 billion over 10 years. These savings could come without creating perverse incentives or negatively impacting beneficiaries' quality of care.