The President's Final Budget Request for Health Care Programs

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Yesterday, President Obama released the final budget proposal of his presidency. Total outlays in FY2017 would surpass $4 trillion under this budget, with spending on Medicare and Medicaid accounting for nearly a quarter—$984 billion. Discretionary funding for Health and Human Services (HHS) would total $82.2 billion, with the largest share—$30.3 billion—going to the National Institutes of Health (NIH). The Centers for Disease Control and Prevention (CDC) would receive $11.9 billion in mandatory and discretionary funding, amid concerns over preparedness to respond to public health emergencies and disease outbreaks. The Food and Drug Administration (FDA) would receive approximately $3.6 billion for their health care related activities.

While the funding levels in the president's budget come in about as expected, there are some noteworthy policy proposals included. The president includes several proposals to "fix" the "high drug cost problem". One such proposal is to require drug manufacturers to disclose their research and development costs, discounts, and other data as determined through regulation; effectively requiring them to make public proprietary business information to their competitors. Another proposal, which has been included—and criticized—in several past budgets, is to reduce the exclusivity period for biologics from 12 years to 7. These two requirements would significantly inhibit innovation in the marketplace.

Additionally, the president's budget proposes several changes intended to reduce out-of-pocket expenditures on prescription drugs for Medicare and Medicaid beneficiaries, including, once again, the empty-promise of requiring manufacturers of biologics and "high cost prescription drugs" to participate in negotiations with the Secretary of HHS in order to be covered by Part D; something that the Congressional Budget Office has repeatedly concluded will have little to no effect on drug spending. Other proposals include the dubious suggestion of aligning Medicare drug payment policies with Medicaid policies relating to drug rebates and manufacturer discounts. The creation of a Federal-State Medicaid negotiating pool for high-cost drugs would allow the Centers for Medicare and Medicaid Services and participating states to partner with a private, third-party contractor to try and obtain additional manufacturer rebates; manufacturers are already required to provide drugs to Medicaid at the lowest price offered to any customer. Manufacturers providing drugs under Part D would be required to pay

additional rebates if their price increases faster than inflation, and drug payments under Medicare Part B would be reduced from 106 percent of Average Sales Price to 103 percent of Average Sales Price.

Many of the remaining Medicare program structural reforms will likely result in payment reductions to Medicare Advantage (MA) and Part D plan sponsors and/or cost increases to the beneficiaries enrolled in such programs. Proposals impacting payments to plan sponsors include reforming the MA bidding system such that benchmarks are set based on plan bids, rather than the reverse as is currently done, and "increasing Part D plan sponsors' risk for catastrophic prescription drug costs" by raising their current liability of covering 15 percent of the cost of drugs upon beneficiaries reaching the catastrophic level of coverage to 75 percent. Proposals affecting beneficiary cost-sharing include increasing income-related premiums for Medicare Part B and D and increasing the Part B deductible for new beneficiaries; imposing home health copayments for new beneficiaries; doubling copayments for brand name drugs for LIS beneficiaries while reducing copayments for generic drugs; and speeding up the timeline for closing the coverage gap such that beneficiaries receive a 75 percent discount rather than the 50 percent discount currently provided. Finally, the president will try to force the implementation of IPAB by lowering the target growth rate that would trigger IPAB's implementation from GDP plus 1 percent growth to GDP plus 0.5 percent growth.

The president's most egregious Medicaid proposal is to allow states to expand Medicaid at any time in the future and still be eligible for 100 percent federal funding for three years (the ACA only allowed 100 percent federal funding for 2013-2015, and thus any state expanding at this point should not be eligible for the full match). Another proposal likely to lead to higher expenditures is to allow states the option to provide 12 months of continuous coverage for adults in Medicaid. The president calls for extending funding for the State Children's Health Insurance Program through 2019, and would permanently extend Express Lane Eligibility for children in Medicaid. Additional Medicaid funding would be provided to Puerto Rico and the other territories, at a cost of $29.6 billion over the next 10 years. A small amount of money would be provided to increase Medicaid program integrity efforts and funding for Medicaid Fraud Control Units.

Hospitals would see reductions in their Bad Debt and DSH payments, but hospitals would be eligible for new bonus payments for participating in certain alternative payment models to be established under the Medicaid and CHIP Reauthorization

Act, the SGR replacement bill. Hospice, home health, and other post-acute care providers would see changes to their payments as well, including the implementation of bundled payments for at least half of total payments for post-acute care, and a requirement that these types of providers implement value-based purchasing. Certain behavioral health providers would now be eligible to participate in the Electronic Health Records incentive program, and $500 million in new mandatory funding would be made available for two years to expand access to mental health services. While greater access to mental health services is important, one should be skeptical about "temporary" mandatory funding mechanisms. Another proposal to improve access to mental health services that costs much less and should have a strong positive impact is the elimination of the arbitrary 190-day lifetime limit on psychiatric inpatient services for Medicaid patients. Medicare Advantage plan sponsors would have greater authority to provide services via telehealth. The Cadillac Tax threshold would be adjusted to align with the average premium cost of a "gold plan" in each state's exchange.

President Obama claims the health care related savings in his budget proposal will total $375.7 billion over the next 10 years, despite several proposals to expand and increase funding for various programs.