

February 16, 2011

To: NOSORH
From: Bill Finerfrock, Deb Hardy Havens and David Connolly
Re: President Obama's FY2012 Budget Proposal

On Monday, February 14, 2011, President Obama submitted his Fiscal Year 2012 budget to Congress. According to the President, this \$3.73 trillion budget will reduce the Federal deficit by more than \$1 trillion over the next decade. According to Administration officials, President Obama's budget would trim the deficit by \$1.1 trillion over 10 years, with two-thirds of the savings coming from spending cuts and one-third from tax increases. The spending reductions include a five-year freeze on domestic discretionary spending, which would save an estimated \$400 billion over 10 years. Of particular interest in the budget proposal are the funding levels that affect health care programs. Here are some of the highlights of the impact of the President's budget on the health sector.

Funding

- **“Doc Fix”:** Freezes Medicare physician payments under the sustainable growth rate (SGR) mechanism, preventing a scheduled cut of more than 25 percent scheduled to take effect in January 2012. Total cost of the provision is \$369.8 billion over ten years – \$54.4 billion in 2012 and 2013, and \$315.4 billion in 2014 and succeeding years. While the cost of the two-year fix **is paid for**, the \$315.4 billion extension beyond 2014 **is not**.
- **Centers for Medicare and Medicaid Services (CMS):** the budget proposes a \$663 million increase, or about 17%, in the agency's discretionary budget which reflects money needed to implement the health care reform law enacted last year.
- **Liability Reform:** The Justice Department portion of the budget calls for \$250 million in new mandatory spending – \$100 million in fiscal year 2012, followed by \$50 million in 2013 through 2015, to “provide incentives for state medical **malpractice reform.**”

Select HHS Programmatic funding slated for reduction/elimination:

Amounts in Millions

	Current Appropriation	President's Budget	Difference
Rural Hospital Flexibility Grant*	41	26	-15*
Rural Access to Emergency Devices	3	0	-3
Rural Community	10	0	-10

Facilities			
State Health Access Grants	74	0	-74
Health Care Facilities and Construction	337	0	337
Health Workforce Including Allied Health and Other Disciplines	2	0	-2
Preventive Health and Health Services Block Grant	100	0	-100
Denali Health Initiative	10	0	10
Children's Hospital Graduate Medical Education	318		-318
Delta States Project	35	0	-35
Healthy Communities	23		-23

* elimination of the SHIP initiative.

Agency Funding Reductions/Increases

Health Services and Resources Administration: \$685 million (9.1%) **decrease**
National Institutes of Health (NIH): \$1.045 billion (3.4%) **increase**
Centers for Disease Control (CDC): \$574 million (8.9%) **decrease**
Health Care Fraud and Abuse Control Fund: \$270 million (86.8%) **increase**
Indian Health Service: \$571 million (14.1%) **increase**

Savings Proposals

- **Medicaid Provisions** (Total savings of \$10.6 billion)
Limit Durable Medical Equipment Reimbursement: Caps Medicaid reimbursements for durable medical equipment (DME) at Medicare rates. (The health care law extended and expanded a previous Medicare competitive bidding demonstration project included in the Medicare Modernization Act, resulting in savings to the Medicare program. This proposal, by capping Medicaid reimbursements for DME at Medicare levels, would attempt to extend those savings to the Medicaid program.) Saves \$6.4 billion.
- **Rebase Medicaid Disproportionate Share Hospital Payments:** In 2021, reallocates Medicaid DSH payments to hospitals treating low-income patients. Saves \$4.2 billion.
- **Medicare Provisions** (Total savings of \$6.5 billion)

Quality Improvement Organizations: Includes several provisions regarding the Quality Improvement Organization (QIO) program within Medicare. Proposals would require QIO contracts to be determined on a geographic basis to maximize efficiency (savings of \$2.2 billion), eliminate conflicts of interest between QIOs' activities on beneficiary protection and quality improvement (savings of \$710 million), expand the eligible pool of QIO contractors (savings of \$170 million), extend QIO contract from three to five years (savings of \$160 million), and align QIO contract terminations with federal regulations (no savings scored).

Provisions would save \$3.1 billion total.

- **Health IT Penalties:** Re-directs Medicare reimbursement **penalties** against physicians who do not engage in electronic prescribing beginning in 2020 back into the Medicare program. Estimated savings of \$3.2 billion.
- Allows civil monetary penalties for providers who do not update **enrollment** information (savings of \$80 million);
- Permits the exclusion of officials affiliated with sanctioned entities from participating in health care programs (savings of \$50 million).
- **Pharmaceutical Provisions** (Total savings of \$12.9 billion)
- Follow-on Biologics: Reduces the period of exclusivity for follow-on biologics. Current law provides for a twelve-year period of exclusivity. Saves \$2.3 billion over ten years.
- “Pay-for-Delay:” Prohibits brand-name pharmaceutical manufacturers from entering into arrangements that would delay the availability of new generic drugs. Saves \$8.8 billion over ten years.
- **FEHB Contracting:** Proposes streamlining pharmacy benefit contracting within the Federal Employee Health Benefits program, *perhaps* by relying on a single pharmacy benefit manager for all FEHB plans saves \$1.8 billion.

Remembering that the President’s budget proposal is just the first step in the overall annual Federal budget process, the final budget adopted by Congress will contain many differences in funding and savings from those proposed yesterday by the Obama Administration. Given the desire of the new Republican majority in the House of Representatives to make deep cuts in annual Federal spending, the deliberations to attain a final budget will be contentious. We will keep you apprised of developments in the budget cycle as they unfold during the remainder of this legislative session of Congress.

If you have any questions about the budget proposal, please feel free to contact us.