

PRESIDENT'S BUDGET FOR FY2013 CALLS FOR HEALTH CARE CUTS; PHYSICIAN FIX OFFSETS ARE IMMEDIATE THREAT TO HOSPITALS

On Feb. 13, President Obama delivered to Congress his federal fiscal year (FFY2013) budget, the beginning of what will undoubtedly be a long, contentious budget process. The package proposes a total of \$364 billion in health savings over ten years, comprised of \$268 billion in Medicare provider cuts and \$51 billion in Medicaid cuts. The major Medicare and Medicaid proposals are outlined in the chart below.

Several of the Medicare and Medicaid provisions were proposed by the President last fall during the deficit reduction negotiations that were taking place. The Administration's budget offers alternatives to the across-the-board sequestration cuts required under current law to begin January 1, 2013. The sequestration cuts, including a 2% reduction in Medicare reimbursement, were triggered by the failure of the "Super Committee" to reach agreement on a deficit reduction budget package. The Medicare and Medicaid cuts contained in the President's budget will serve as options for reducing entitlement spending.

The immediate threats to providers are still those proposals being considered by the Congressional Conference Committee working to find ways to pay for the Medicare physician fee schedule payment "fix" and other Medicare payment "extenders" before the March 1 deadline.

Hospitals and health systems are vulnerable to Medicare and Medicaid reductions to offset the cost of a Medicare physician fix, whether it is through a conference agreement or via an alternative legislative agreement driven by congressional leaders. Currently under consideration are:

- Medicare hospital outpatient payment reductions for evaluation and management (E+M) services;
- Reductions in Medicare payments to providers for assistance to low-income, Medicare beneficiaries (bad debt);
- Medicare inpatient hospital payment reductions through a new coding offset;
- Extension of the Medicare annual cap on outpatient therapy service payments; and
- Medicaid Disproportionate Share Hospital (DSH) payment cuts.

The conferees are not currently considering proposals put forward in the President's budget to cut Medicare funding for Graduate Medical Education (GME), special payments for Critical Access Hospitals (CAHs) and payment rates to post-acute providers. Medicaid provider tax reductions included in the President's proposal are also not currently part of the extenders debate.

MEDICARE AND MEDICAID CUTS IN THE PRESIDENT'S FFY 2013 BUDGET

The Administration proposes in its FFY2013 budget that over 10 years, Medicare provider spending be reduced by \$268 billion, comprised of reductions to Graduate Medical Education (GME), critical access hospitals and other specialty rural hospitals and post-acute care providers. It also seeks \$51 billion in Medicaid spending cuts, including the restricted use of provider taxes. The President had previously made these recommendations to the Super Committee.

The chart below describes the major Medicare and Medicaid proposals announced by the President today. Missing from the proposal is a plan to address the pending 27% reduction in Medicare payments to physicians that will occur March 1, 2012 absent congressional action.

MEDICARE Proposals	Estimated impact	Explanation
Medicare GME Cuts	-\$10 billion	Would reduce Medicare Indirect Medical Education (IME) factor by 10% starting in 2014, from the current 5.5% to 5.0%.
Medicare Rural and Small Community Hospitals	-\$2 billion	Would reduce support for special Medicare payment programs for certain rural and small community hospitals, including: <ul style="list-style-type: none"> • CAHs: Starting in 2013 reimbursement would be reduced from 101% of cost to 100%, and starting in 2014 the CAH designation would be eliminated for hospitals less than ten miles from another hospital.
Medicare Bad Debt	-\$36 billion	Would reduce Medicare support to providers (hospitals from current 70% to 25%) over three years starting in 2013 when Medicare patients' do not pay their required share of the costs (bad debt).
Medicare Post-Acute Providers	-\$63 billion	Would reduce payments via various policies to skilled nursing facilities (SNFs), long-term care hospitals,

inpatient rehabilitation facilities, and home health agencies by cutting payment rates from 2013 through 2022 (-\$57 billion);

- Starting in 2013, would “equalize” payments for certain comparable services performed in IRFs and SNFs (-\$2 billion);
- Starting in 2013, would increase “75% rule” threshold for IRFs from the current 60% (-\$2 billion); and
- Starting in 2016, would reduce payments for SNFs with high rates of preventable hospital readmissions (-\$2 billion).

Medicare Cost Sharing Reform -\$32 billion

The budget would

- Increase Part B deductible for new beneficiaries starting in 2018 (-\$2 billion);
- Increase income-related premiums under Medicare Parts B and D (-28 billion) in 2017;
- Establish home health cost sharing \$100 per episode (-\$350 million) in 2017; and
- Establish a surcharge for Part B premium for beneficiaries with Medigap plans with low-cost sharing requirements (-\$2.5 billion) in 2017.

Medicare Waste, Fraud, and Improper Payment -\$450 million

Would include policies to recover erroneous payments, starting in 2013.

Medicare EHR Penalties -\$590 million

Redirect “meaningful use” penalties to deficit reduction, starting in 2020.

Medicare Drug Payment Policies -\$155 billion

Would allow Medicare to benefit from same rebate the Medicaid program receives from rebates to brand name and generic drugs.

Independent Payment Advisory Board (IPAB)	No estimate	Would enable the Independent Payment Advisory Board to issue recommendations triggered by a lower threshold of overall cost increases than under ACA (from Gross Domestic Product per capita +1% to +5%).
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MEDICAID Proposals

Medicaid Provider Taxes	-\$22 billion	Would phase down, but not eliminate states' use of Medicaid provider taxes, starting 2015, as follows: <ul style="list-style-type: none">• 2015: current 6% level reduced to 4.5%;• 2016: 4%; and• 2017 and beyond: 3.5%.
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The President's renewed call for Medicare and Medicaid reductions, in addition to reductions under the Affordable Care Act (ACA), other regulatory reductions and the current law sequestration cuts would undermine the transformation of the delivery of care through new delivery system models. Delivery system reform, such as Accountable Care Organizations, cannot be accomplished with perpetual and significant reductions in Medicare and Medicaid reimbursement.