

# President's FY 2009 Budget Proposes Major Payment Cuts to Providers

President Bush presented his \$3.1 trillion fiscal year (FY) 2009 budget proposal to Congress on Monday, February 4. To achieve his plan to eliminate the federal deficit by 2012, the President has proposed major cuts in health care programs. Although there are some budget-neutral proposals and modest increases for certain programmatic initiatives, including \$19.27 billion in proposed new funding for the State Children's Health Insurance Program, most of the health care proposals in the budget consist of \$200 billion in cuts to Medicare (\$182.7 billion) and Medicaid (\$18.2 billion). A majority of the Medicare cuts—\$124 billion—would reduce payments to acute care hospitals.

A majority of the proposals outlined below require legislative action. Although the President's budget proposal is unlikely to garner support from the Democratic-led Congress, Congress may consider some of the proposed budgetary savings to help pay for other health care legislation this year.

## Budget Savings and Related Proposals

### Medicare

The President proposes drastic spending cuts for virtually all providers, although Medicare Advantage plans are left untouched, and the budget does not address looming cuts in physician payments or the sustainable growth rate (SGR) methodology used to update physician payments.

**Hospital Payment Updates** - Freezes inpatient and outpatient hospital payments in FYs 2009-2011, followed by annual updates of negative 0.65 percent.

*Savings in FY 2009:* \$4.57 B

*Savings over five years:* \$70.25 B

**Other Provider Payment Updates** - Freezes and reduces payments to long-term care hospitals, skilled nursing facilities, hospices, ambulatory surgical centers, home health agencies and inpatient rehabilitation facilities.

*Savings in FY 2009:* \$2.61 B

*Savings over five years:* \$41.41 B

**Medicare DSH** - Reduces Medicare DSH payments by 30 percent over 2 years.

*Savings in FY 2009:* \$1.75 B

*Savings over five years:* \$20.69 B

**IME** - Reduces the Medicare IME add-on payment from 5.5 percent to 2.2 percent over 3 years.

*Savings in FY 2009:* \$890 M

*Savings over five years:* \$12.9 B

**IME (Medicare Advantage)** - Eliminates "duplicate" hospital IME payments for Medicare Advantage beneficiaries.

*Savings in FY 2009:* \$1.01 B

*Savings over five years:* \$8.85 B

**Bad Debt** - Eliminates bad debt reimbursement for all providers over 4 years.

*Savings in FY 2009:* \$250 M

*Savings over five years:* \$8.46 B

**Capital Payments** – Reduces hospital capital payments by 5 percent in FY 2009.

*Savings in FY 2009:* \$490 M

*Savings over five years:* \$3.05 B

**Value-Based Purchasing** – Establishes a hospital value-based purchasing program.

*Savings in FY 2009:* \$0

*Savings over five years:* \$1.65 B

**Never Events** – Eliminates Medicare payments for “never” events (preventable adverse events such as surgery on the wrong side of the body). Hospitals also would be required to report never events or receive a reduction to their annual update.

*Savings in FY 2009:* \$0

*Savings over five years:* \$190 M

**Regulatory Changes to Hospital Payments** – Includes the elimination of payment for certain conditions if they were not present at the time of admission and an increase to the inpatient length of stay threshold that triggers transfer payment adjustments.

*Savings in FY 2009:* Not itemized

*Savings over five years:* Not itemized

**Post-Acute Care** – Proposes site-neutral payments for post-hospital care for five conditions commonly treated in skilled nursing facilities and inpatient rehabilitation facilities.

*Savings in FY 2009:* \$250 M

*Savings over five years:* \$1.65 B

**DME Rentals** – Establishes a 13-month rental period for power wheelchairs and reduces the rental period from 36 to 13 months for most oxygen equipment.

*Savings in FY 2009:* \$290 M

*Savings over five years:* \$3.72 B

**Premium Subsidies** – Eliminates annual indexing of income thresholds for Part B premium subsidies and applies those thresholds to a reduction of Part D premium subsidies.

*Savings in FY 2009:* \$460

*Savings over five years:* \$5.75 B

**MSP for ESRD Beneficiaries** – Increases Medicare Secondary Payer status for beneficiaries with End Stage Renal Disease from 30 to 60 months.

*Savings in FY 2009:* \$110 M

*Savings over five years:* \$1.11 B

**Mandamus Jurisdiction** – Limits the use of mandamus jurisdiction to resolve Medicare disputes.

*Savings in FY 2009:* \$0

*Savings over five years:* \$60 M

In addition to the cuts described above, the President proposes to reduce automatically all provider payments by four-tenths of one percent per year in each year in which at least 45 percent of Medicare funding is derived from general revenues.

## Medicaid

This budget proposal does not contain new direct Medicaid provider cuts that have been a standard feature of his recent budgets or the kind of major Medicaid restructuring proposals that were common in the early budgets of his presidency. Nevertheless, the budget does propose to slash \$18.2 billion out of the program over five years, largely through measures that

shift costs to the states instead of containing overall program spending. These cuts are on top of the nearly \$12 billion in cuts from administrative proposals contained in last year's budget that are in various stages of implementation—the President's budget assumes all of these savings in the Medicaid baseline.

**Matching Rate Reductions** – Reduces enhanced matching rates for family planning services and the Qualifying Individual Medicare cost-sharing program to each state's federal matching assistance percentage (FMAP) rate. The matching rate for all administrative and case management services would be reduced to 50 percent.

*Savings in FY 2009:* \$1.92 B

*Savings over five years:* \$10.12 B

**Medicaid Managed Care** – Allows states to mandate the enrollment of all previously protected populations, including special needs children, into managed care programs.

*Savings in FY 2009:* \$100 M

*Savings over five years:* \$2.1 B

**Pharmacy Savings** – Reduces the upper limit on reimbursement for multiple source drugs to 150 percent.

*Savings in FY 2009:* \$195 M

*Savings over five years:* \$1.11 B

In addition, the President proposes to replace the best price component of the Medicaid drug rebate with a budget-neutral flat rebate (a proposal included in prior year budgets but never acted on by Congress). This would have an additional likely impact on the price of 340B drugs, which are currently equal to the lower of best price or AMP minus 15.1 percent.

### Other Savings

In addition to the savings above, the President proposes to eliminate funding for the following programs:

- Children's Hospitals Graduate Medical Education (CHGME) - Currently funded at \$302 million.
- Workforce - Eliminates funding for all Title VII Health Professions programs, for a total savings of \$193 million.

### Other Programmatic Proposals

The President does propose programmatic changes in a number of areas where the result is either to expend additional dollars or is budget neutral:

**SCHIP.** The President's budget proposes to reauthorize SCHIP with \$19.27 billion of new funding over five years, significantly more than the \$5 billion increase proposed for FY 2008 but less than the \$35 billion in new funding sought by Congress. The proposal would "refocus SCHIP on low-income children." In addition, the President would provide \$50 million in FY 2009 and \$100 million per year thereafter in funding for outreach grants to states, localities, schools and community based organizations to enroll children in Medicaid and SCHIP.

**Generic Biologics.** The President proposes new authority to establish a regulatory process for the FDA to approve follow-on proteins, financed by user fees.

### Contact Information

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