

President Obama's Budget Proposes Framework for Health Reform

President Barack Obama unveiled the first budget proposal of his administration, and restructuring the health care system figures centrally in his plans. Despite a \$1.2 trillion budget deficit estimated for 2010, the president's budget sets aside \$633.8 billion over 10 years in a "reserve fund" for health reform. The proposal outlines eight key principles for reform and provides a snapshot of the Medicare and Medicaid financing changes that the president proposes to fund health reform. The budget also includes a variety of new health care spending proposals for 2010. The full budget documents, including the Health and Human Services budget, are posted to Ropes & Gray's [Health Reform Matters Resource Center](#).

Guiding Principles for Health Reform

- *American's Financial Health*: Health care costs borne by American citizens and businesses should be reduced and bankruptcies resulting from major illnesses avoided.
- *Affordable Health Care Coverage*: Health care efficiencies should be increased by reducing health care administrative costs, unnecessary tests and services and other waste.
- *Universality*: The plan should establish a path to providing coverage for all.
- *Portability of Coverage*: Americans should be allowed to maintain their health insurance after leaving a job, and "pre-existing condition" exclusions should be prohibited.
- *Choice*: Americans should have a choice between health plans, including their employer plan, and be able to choose their physicians.
- *Prevention and Wellness*: Public health initiatives should be adopted to reduce costs by decreasing unhealthy lifestyles and ensuring access to routine preventative care.
- *Patient Safety and Quality Care*: Patient safety measures and incentives to reduce variability in patient care must be implemented with aid from health information technology and comparative effectiveness research.
- *Long-Term Fiscal Sustainability*: The health reform plan must pay for itself in the long term by reducing the growth of overall health care costs, increasing efficiencies, and providing additional dedicated funding streams.

The budget does not provide additional detail on how these goals will be achieved. Instead, the president commits to working with Congress on legislation consistent with the principles.

Financing the Health Reform Reserve Fund

About half of the president's \$633.8 billion health care reserve fund is financed by reducing federal Medicaid and Medicare spending by \$316 billion over 10 years. These Medicaid and Medicare savings fall into three broad categories:

- *Aligning incentives toward quality* (\$20.5 billion):
 - Reduce Medicare payments to hospitals with high **readmission rates** (\$8.4 billion)
 - Link a portion of Medicare inpatient payments to hospital performance on quality measures (**pay for performance**) (\$12 billion)

- *Promoting efficiency and accountability* (\$287 billion):
 - Reduce overpayments to **Medicare Advantage** plans by establishing a competitive bidding system (\$175 billion)
 - **Bundle** Medicare payments for hospital inpatient services and certain post-acute services in the 30-day period after discharge (\$17.8 billion)
 - Increase the minimum **Medicaid prescription drug rebate** from 15.1 to 22.1 percent of the Average Manufacturer Price, allow states to collect rebates from Medicaid managed care plans, and apply rebates to new drug formulations (\$19.5 billion)
 - Establish a pathway for FDA approval of **generic biologics** (\$9.2 billion)
 - Restructure Medicare **home health** care payments (\$37 billion)
 - Use **radiology benefit managers** to ensure appropriate Medicare payments for imaging services
 - Expand Medicaid **family planning** services (\$190 million)
 - Use the **National Correct Coding** Initiative edits for Medicaid payments (\$620 million)
 - Reallocate Medicare and Medicaid Improvement Funds that currently support **Quality Improvement Organizations** (\$24 billion)
 - Address conflicts of interest in **physician-owned specialty hospitals** (negligible savings)
- *Encouraging shared responsibility* (\$8 billion):
 - Extend means testing for certain high-income Medicare beneficiaries to **Part D drug coverage premiums** (\$8 billion)

The remaining \$317.8 billion set aside in the health reform reserve fund will be funded by new tax revenues generated by limiting itemized deductions for high-income wage earners.

Other Initiatives

In addition to significant investments in health reform, the president's budget also provides increased funding for several important health care programs. (Unless noted below, the specific funding amounts are not provided in the budget overview.) These include:

- An additional \$6 billion for **NIH cancer research** and a commitment to double cancer research funding in coming years
- A “substantial” increase to strengthen FDA's **food and medical product safety** efforts
- Reform of the **physician payment system** to give physicians incentives to improve quality and efficiency, while not assuming currently scheduled cuts will take effect
- Investments in new **Medicare and Medicaid demonstration and pilot projects** to evaluate payment reforms, devise ways to improve quality, and align provider payments with costs
- Increased funding for the **Ryan White Care Act HIV/AIDS** detection, prevention, and treatment programs
- An additional \$211 million to fund **autism** research, screening, and public awareness campaigns
- An additional \$73 million to improve **rural health care** access and quality

- A commitment to building on health care initiatives already enacted in the stimulus bill, including investments in health information technology, comparative effectiveness, a temporary FMAP increase, health care workforce, the Indian Health Service and the Children's Health Insurance Program

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