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Senate Finance Committee Releases Policy Options for Health Care Reform Financing

The Senate Finance Committee issued its third and final set of health reform policy options last week, focused this time on options for financing reform. The Committee's paper explores three potential funding sources: (1) savings from within the health care system, (2) reductions in health-related tax subsidies, and (3) changes to non-health tax provisions. While the Committee's proposals are often vague and offer multiple options in the alternative, they include cuts in provider payments, increases in taxes or both, thereby all but guaranteeing pain to important constituencies. Undaunted by the political challenges ahead, the Committee continues to pursue its aggressive schedule to mark up comprehensive reform legislation in June.

A copy of the Committee's paper on health reform financing options is available in the [Comprehensive Health Reform](#) section at Ropes & Gray's [Health Reform Resource Center](#) and by clicking [here](#). Highlights include:

Health System Savings

The Committee's proposals to save federal health care dollars are organized into four categories as follows:

- *Ensuring Appropriate Payment*

The Committee proposes a number of measures to adjust Medicare (and some Medicaid) payments to various providers, including reducing or eliminating FY 2010 market basket updates for certain Medicare fee-for-service providers, reducing and/or consolidating Medicare and Medicaid graduate medical education (GME) and disproportionate share hospital (DSH) payments, rebasing home health payments and reducing Medicare payment rates for potentially overvalued items and services, including durable medical equipment, advanced diagnostic imaging services, and certain physician services. With respect to prescription drugs, the paper suggests an increase in the Medicaid drug rebate from 15.1 percent to as much as 23.1 percent, and an extension of the rebate to Medicaid managed care organizations.

- *Capturing Productivity Gains*

Claiming that current market basket updates overstate costs because they are not adjusted to reflect productivity gains, the Committee proposes annual productivity adjustments for certain fee-for-service providers.

- *Reducing Geographic Variation in Spending*

The paper discusses options to reduce payments in areas where either per beneficiary or per provider spending exceeds national averages.

- *Modifying Beneficiary Contributions*

A variety of proposals to simplify Medicare cost sharing and make it comparable to private sector coverage are among the Committee's options, including out-of-pocket maximums, a combined Part A and B deductible, required Medigap cost sharing and indexing cost sharing to the growth in Medicare costs.

Health-Related Tax Subsidies

- *Modifying the Exclusion for Employer-Provided Coverage*

Noting the \$132.7 billion annual cost of excluding the value of employer-provided health coverage from the individual income tax, the Committee proposes a range of tax-related options, including limiting the value of the exclusion based on the value of the employer-provided health plan, the income of the insured, or a combination of both.

- *Other Health-Related Revenue Raisers*

Reflecting the longstanding concerns of the Committee's senior Republican, Senator Charles Grassley, the paper includes proposals to tighten the criteria for hospitals to qualify as tax-exempt organizations. Also included are options to raise the threshold for or eliminate the deduction of medical expenses, reduce the deductibility of health savings account contributions, and limit or eliminate tax exclusions for contributions to a health flexible spending arrangement.

Non-Health Tax Provisions

The Committee proposes "lifestyle-related" taxes to raise revenue, including a uniform excise tax on alcohol products and an excise tax on sugar-sweetened beverages. Additionally, the Committee's report lists, for informational purposes, President Obama's fiscal year 2010 budget proposals to generate tax revenue for a health reform reserve fund.

Ropes & Gray's analyses of the Senate Finance Committee's [first](#) and [second](#) sets of policy proposals on health care reform are available in the [Comprehensive Health Reform](#) section on our [Health Reform Resource Center](#). For further information, please contact your regular Ropes & Gray attorney.

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