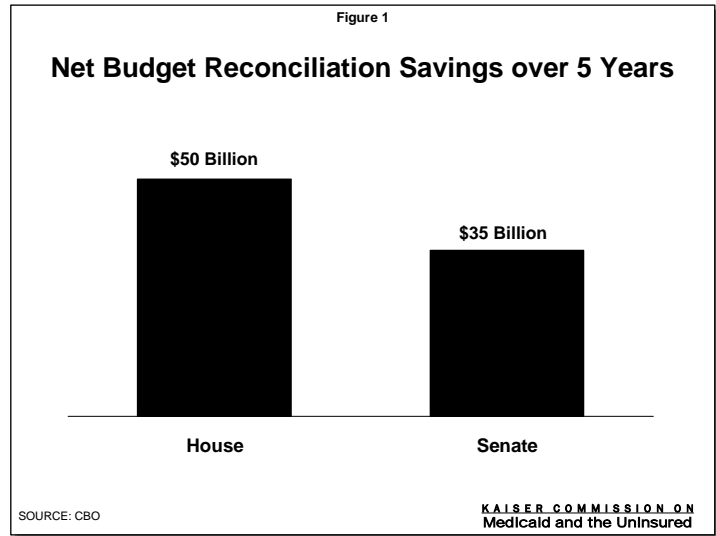


OVERVIEW OF HOUSE AND SENATE BUDGET RECONCILIATION

In April 2005, the House and Senate adopted a budget resolution calling for \$35 billion in federal savings from mandatory spending programs over five years, with a large share coming from Medicaid, the program that partners with states to provide health coverage and long-term care assistance to low-income families, elderly, and disabled people.

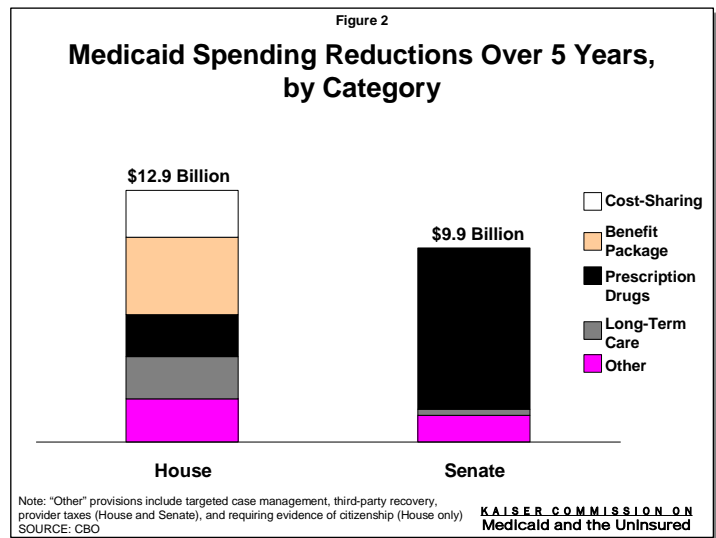
In November 2005, the House and Senate both passed budget reconciliation bills to enact into law changes to mandatory programs that result in spending reductions. While the Senate bill met the \$35 billion target, the House bill exceeded the target and generated five year savings of \$50 billion (Figure 1).



MEDICAID SPENDING REDUCTIONS

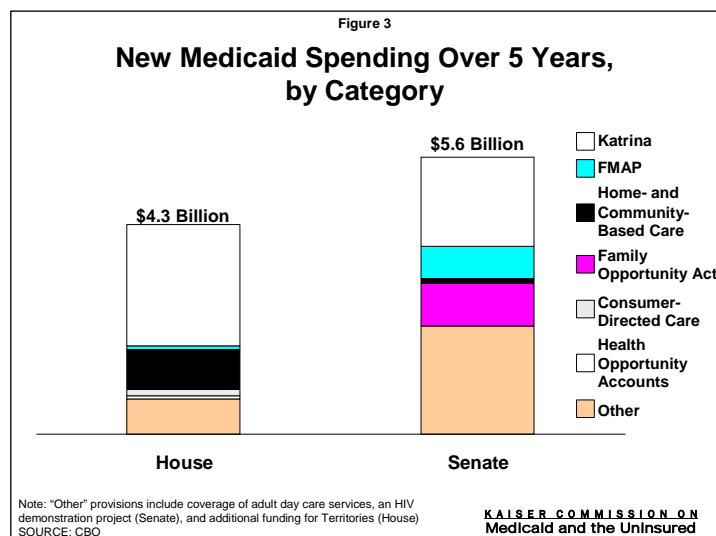
For Medicaid, the largest share of savings in the Senate were generated by proposals related to prescription drugs. These provisions would decrease Medicaid revenues to pharmacists by reducing payments for drug ingredient costs and would decrease Medicaid revenues to drug manufacturers by increasing the rebates they owe. Savings in the House package were derived from more limited changes to drug spending and increased costs to Medicaid beneficiaries through reduced benefits packages and increases in cost-sharing (Figure 2).

The Medicaid savings estimates represent less than one percent of projected Medicaid spending over the next five years, but some proposals represent significant changes to Medicaid policy.



NEW MEDICAID SPENDING

Both the Senate and House bills include temporary funding to provide full federal financing (100 percent FMAP) for Medicaid and SCHIP costs for individuals who were living in designated parts of Louisiana, Mississippi and Alabama in the week prior to Hurricane Katrina. The House bill covers "home state" residents in addition to evacuees. The spending estimates for these provisions are \$1.8 billion for the Senate bill and \$2.5 billion for the House bill – a large share of all new spending included in both bills (Figure 3).



Other new spending in the Senate bill provides for Medicaid coverage of certain disabled children (the Family Opportunity Act) and a limit on scheduled reductions in federal matching payments (FMAP) in many states. The House reconciliation package includes \$60 million in five year funding to establish “Health Opportunity Accounts” to conduct demonstrations of health savings account approaches for Medicaid beneficiaries, in up to ten states. Although the funding is not substantial, these demonstrations would permit a fundamental restructuring of Medicaid in up to ten states.

MEDICARE

The Senate reconciliation bill includes a net \$5 billion in savings from the Medicare program (Figure 4), slightly more than half of the Senate’s total savings from mandatory health programs. The House bill does not address the Medicare program.

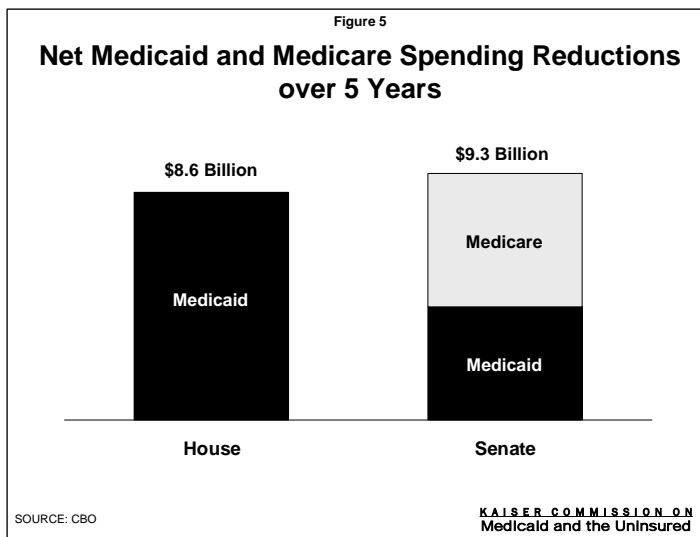
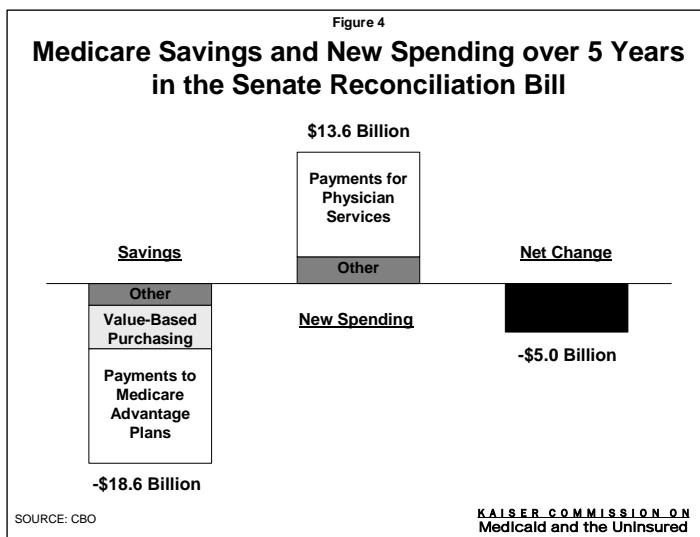
The Senate bill achieves savings by repealing the Medicare Advantage preferred provider organization stabilization fund which was established under the 2003 Medicare Modernization Act to promote plan entry and retention in the Medicare Advantage program, and by modifying the risk-adjusted payment system for Medicare Advantage plans. The Administration has indicated that President Bush may veto budget reconciliation if it includes this provision. Other savings would come from “value-based purchasing,” tying provider payment to quality. The bulk of the Senate savings would be applied to eliminating a scheduled reduction in payments for physician services that the House did not address.

NET CHANGES TO MEDICAID AND MEDICARE

The net savings figures reflect a series of savings proposals offset by spending proposals. Overall, the Senate package included \$4.3 billion in net Medicaid savings and \$5.0 billion in net Medicare savings. The House bill produced \$8.6 billion in net Medicaid savings, and did not address the Medicare program (Figure 5).

OUTLOOK

As members of the House and Senate negotiate a final agreement on the budget reconciliation bill, they will need to address several key differences between their two bills, including the total amount of spending reductions (\$15 billion more in the House); the total amount and nature of Medicaid reductions (\$8.6 billion in the House, \$4.3 billion in the Senate); with a focus on prescription drugs (Senate), or increased cost-sharing and reduced benefit packages (House); and whether to include Medicare changes or not.



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