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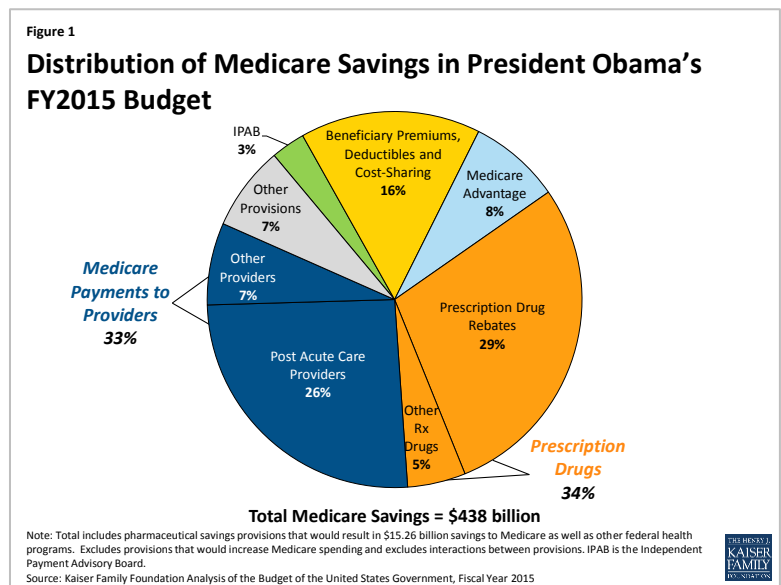
Summary of Medicare Provisions in the President's Budget for Fiscal Year 2015

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On March 4, 2014, the Office of Management and Budget released President Obama's budget for fiscal year (FY) 2015, which includes provisions related to federal spending and revenues, including Medicare savings. The President's budget would use federal savings and revenues to reduce the deficit and replace sequestration of Medicare and other federal programs for 2015 through 2024. This brief summarizes the Medicare provisions included in the President's budget proposal for FY2015.

The President's FY2015 budget would reduce Medicare spending by more than \$400 billion between 2015 and 2024, accounting for about 25 percent of all reductions in federal spending included in the budget. Most of the Medicare provisions in the FY2015 budget are similar to provisions that were included in the Administration's FY2014 budget proposal. The proposed Medicare spending reductions are projected to extend the solvency of the Medicare Hospital Insurance Trust Fund by approximately five years.

- More than one-third (34%) of the proposed Medicare savings are due to reductions in payments for prescription drugs under Medicare Part B and Part D. The single largest source of Medicare savings would require drug manufacturers to provide Medicaid rebates on prescriptions for Part D Low Income Subsidy enrollees, a proposal which was also included in the President's FY2014 proposed budget.
- One-third (33%) of the proposed Medicare savings are due to reductions in Medicare payments to providers, most of which are reduced payments to post-acute care providers (Figure 1). The baseline of the proposed budget assumes no reduction in Medicare payments for physician services, relative to current levels, from 2015 through 2024, in contrast to the sustainable growth rate formula (SGR) under current law, which calls for significantly lower physician payments during this 10-year period. The projected cost for adjusting the baseline for this period is \$110 billion, plus additional amounts associated with eliminating cuts in 2014.
- About 16 percent of the proposed Medicare savings are due to increases in beneficiary premiums, deductibles and cost-sharing.



This brief will be updated as additional details about the provisions in the budget are released.

SUMMARY OF MEDICARE PROVISIONS IN THE PRESIDENT'S BUDGET

GENERAL PROVISIONS PERTAINING TO MEDICARE EXPENDITURES

- **The Independent Payment Advisory Board (IPAB):** Would “strengthen” the IPAB; details not specified. Estimated budget impact, 2022-2024: -\$12.94 billion
 - The FY2014 budget would have lowered the IPAB target growth rate for Medicare spending from GDP+1 percent to GDP+0.5 percent for 2020 and future years.
- **Sequestration of Medicare Spending:** Would replace sequestration with other savings and revenue provisions.
 - The FY2014 budget included a similar provision.

BENEFICIARY PREMIUMS, DEDUCTIBLES AND COST-SHARING

- **Income-Related Part B And Part D Premiums:** Would expand the share of beneficiaries who would be subject to income-related premiums under Medicare Part B and Part D, with modifications to the provision included in the FY2014 budget; details not specified. Under current law, premiums for most people on Medicare equal 25 percent of projected average per capita Part B expenditures and 25.5 percent of average per capita Part D expenditures. Beneficiaries with higher incomes (more than \$85,000 for individuals and \$170,000 for couples), including 5 percent of beneficiaries in 2014, are required to pay higher premiums, ranging from 35 percent to 80 percent of per capita costs, depending on their income. Estimated budget impact, 2018-2024: -\$52.79 billion
 - The FY2014 budget would have expanded income-related premiums under Medicare Parts B and D by increasing the lowest income-related premium from 35 percent to 40 percent of projected per capita expenditures, increasing the other income brackets, and adding new tiers of income-related premium payments, with a cap at 90 percent of projected per capita expenditures, and would have maintained a freeze on current-law income-related thresholds until 25 percent of beneficiaries pay income-related premiums.
- **Part B Deductible:** Would modify the Part B deductible for new beneficiaries; details not specified. Under current law, the Part B deductible is uniform across all beneficiaries and is indexed to change each year in accordance with changes in Medicare Part B per capita spending. Estimated budget impact, 2018-2024: -\$3.41 billion
 - The FY2014 budget would have increased the Part B deductible for new beneficiaries by \$25.
- **Home Health Copayment:** Would introduce a copayment for home health episodes for new beneficiaries; details not specified. Under current law, Medicare does not impose a copayment on home health services. Estimated budget impact, 2018-2024: -\$0.82 billion
 - The FY2014 budget would have introduced a copayment for home health services of \$100 per home health episode, for episodes with 5 or more visits not preceded by a hospital or post-acute care stay, applicable only to new beneficiaries.

- **Surcharge On Medigap Coverage:** Would apply a premium surcharge for new beneficiaries purchasing “near first-dollar” Medigap policies beginning in 2018; details not specified. Estimated budget impact, 2018-2024: -\$2.74 billion
 - The FY2014 budget would have introduced a surcharge on Part B premiums that would be equivalent to about 15 percent of the average Medigap premium for new beneficiaries that purchase Medigap policies with “particularly low cost-sharing requirements.”
- **Part D Copayments:** Would encourage utilization of generic drugs by low-income beneficiaries; details not specified. Estimated budget impact, 2016-2024: -\$8.49 billion
 - The FY2014 budget would have increased copayments (up to twice the level required under current law) for specified brand name drugs with appropriate generic substitutes, and lowered copayments for specified generic drugs by more than 15 percent for Part D Low Income Subsidy (LIS) beneficiaries; beneficiaries could have received drugs at current copayment levels with successful appeal of a coverage determination, and low-income beneficiaries qualifying for institutional care would have been excluded from the policy.

DUAL-ELIGIBLE BENEFICIARIES

- **Program for All-Inclusive Care for the Elderly (PACE) Program:** Would initiate a budget-neutral pilot in a limited number of states to expand eligibility requirements for the PACE program to include beneficiaries dually eligible for Medicare and Medicaid who are between the ages of 55 and 21 to test whether PACE programs can effectively serve a younger population without increasing costs. Current law limits the PACE program to dually eligible beneficiaries ages 55 and older. Estimated budget impact, 2015-2024: less than \$500 million
 - The FY2014 budget did not include a similar provision.
- **Appeals Process:** Would implement a single beneficiary appeals process for managed care plans that integrate Medicare and Medicaid payment and services and serve dual-eligible beneficiaries. Estimated budget impact, 2015-2024: less than \$500 million
 - The FY2014 budget included a similar provision.
- **Qualified Individuals:** Would extend the program to pay Part B premiums for qualified individuals (QIs) through 2016. Estimated budget impact, 2014-2016: +\$0.96 billion
 - The FY2014 budget included a similar provision.

MEDICARE ADVANTAGE

- **Coding Intensity Adjustment:** Would increase the minimum coding intensity adjustment for payments to Medicare Advantage plans. Estimated budget impact, 2016-2024: -\$30.96 billion
 - The FY2014 budget included a similar provision.
- **Employer-Group Plans:** Would align payments for Medicare Advantage employer group waiver plans with the average individual Medicare Advantage bid in each Medicare Advantage payment area. Estimated budget impact, 2016-2024: -\$3.74 billion
 - The FY2014 budget included a similar provision.

PRESCRIPTION DRUGS

- **Part B Drugs:** Would modify the reimbursement of Part B drugs; details not specified. Estimated budget impact, 2015-2024: -\$6.75 billion
 - The FY2014 budget would have reduced payments for Part B drugs from 106 percent to 103 percent of the average sales price.
- **Biologics:** Would shorten the length of exclusivity for biologics from 12 years to 7 years, and prohibit additional periods of exclusivity for brand name biologics due to minor changes in product formulations, beginning in 2015. Estimated savings for Medicare and other federal healthcare programs, 2015-2024: -\$4.21 billion
 - The FY2014 budget included a similar provision.
- **Part D Prescription Drug Rebate:** Would require drug manufacturers to provide rebates to Part D plans that are no lower than the Medicaid minimum rebate level for drugs prescribed to dual-eligible beneficiaries and other Part D low-income subsidy (LIS) beneficiaries, beginning in 2016. Estimated budget impact, 2016-2024: -\$117.25 billion
 - The FY2014 budget included a similar provision.
- **Part D Prescription Drug Discounts:** Would increase the manufacturer discounts for brand name drugs in the Part D coverage gap, closing the gap for brand name drugs by 2016, four years sooner than under current law; further details not specified. Estimated budget impact, 2016-2024: -\$7.85 billion
 - The FY2014 budget would have increased the manufacturer discounts for brand name drugs in the Part D coverage gap from 50 percent to 75 percent.
- **Part D Bonus Payments:** Would provide new bonus payments to Part D plans with high quality ratings. Estimated budget impact, 2015-2024: less than \$500 million
 - The FY2014 budget did not include a similar provision.
- **Part D Coverage:** Would provide the Secretary of HHS with the authority to suspend coverage and payment for questionable Part D prescriptions. Estimated budget impact, 2015-2024: less than \$500 million
 - The FY2014 budget did not include a similar provision.
- **Part D LIS beneficiaries:** Would permanently authorize a demonstration (the LI NET program) that provides retroactive drug coverage for certain Part D LIS beneficiaries. Estimated budget impact, 2015-2024: less than \$500 million
 - The FY2014 budget included a similar provision.
- **Pay for Delay:** Would prohibit “pay for delay” arrangements between brand and generic manufacturers. Estimated budget impact, 2015-2024: -\$11.05 billion
 - The FY2014 budget included a similar provision.

PHYSICIAN PAYMENTS AND THE SUSTAINABLE GROWTH RATE (SGR) FORMULA

- **SGR Formula:** Includes statement that the President is “committed to working with Congress to continue progress toward reforming Medicare physician payments”; adjusted budget baseline assumes no reduction in Medicare payments for physician services for 2014 to 2024. Estimated cost of preventing a reduction in Medicare physician payments, as reflected in the bridge to the adjusted baseline, 2015-2024: +\$110 billion
 - The FY2014 budget included a similar assumption.
- **Alternative payment models:** Physicians would be encouraged to join accountable payment models and over time payment updates for physician services would be linked to participation in the organizations. Streamlined value-based purchasing programs would be available for providers who do not participate in the organizations. Estimated budget impact, 2015-2024: less than \$500 million
 - The FY2014 budget included a similar provision.

MEDICARE PAYMENTS TO OTHER PROVIDERS

- **Critical access hospitals:** Would reduce critical access hospital payments to 100 percent of reasonable costs, and eliminate the designation for those critical access hospitals within 10 miles of the nearest hospital, beginning in 2015. Estimated budget impact, 2015-2024: -\$2.41 billion
 - The FY2014 budget included a similar provision.
- **Indirect Medical Education (IME):** Would reduce provider payments for IME to align with patient care costs, beginning in 2015. Estimated budget impact, 2015-2024: -\$14.64 billion
 - The FY2014 budget included a similar provision.
- **Health Workforce:** Would create a competitive, value-based graduate medical education grant program that would be funded through the Medicare Hospital Insurance Trust Fund. Estimated budget impact, 2015-2024: +\$5.23 billion
 - The FY2014 budget did not include a similar provision.
- **Post-acute care providers:** Would restructure payments for post-acute care services using a bundled payment approach, beginning in 2019. Would reduce payment updates for certain post-acute care providers, equalize payments for certain conditions commonly treated in inpatient rehabilitation facilities (IRFs) and skilled nursing facilities (SNFs), and require that 75 percent of IRF patients require intensive rehabilitative services, beginning in 2015. Would reduce SNF payments to reduce hospital readmissions, beginning in 2019. Estimated budget impact, 2015-2024: -\$112.44 billion
 - The FY2014 budget included similar provisions.

- **Additional provider measures:** Would exclude certain services from the in-office ancillary services exception; modify the documentation requirements for face-to-face encounters for durable medical equipment, prosthetics, orthotics and supplies claims; reduce payments for clinical laboratory services; clarify the Medicare Fraction in the Medicare DSH statute; implement value-based purchasing for SNFs, home health agencies (HHAs), ambulatory surgical centers (ASCs), and hospital outpatient departments (HOPDs); and expand the availability of Medicare data released to providers. Estimated budget impact, 2015-2024: -\$13.92 billion
 - The FY2014 budget included similar provisions.

OTHER MEDICARE PROVISIONS

- **Bad debt:** Would reduce bad debt payments to more closely match private sector standards; details not specified. Estimated budget impact, 2015-2024: -\$30.82 billion
 - The FY2014 budget would have reduced bad debt payments from 65 percent generally to 25 percent for all eligible providers over 3 years.
- **Fraud, waste, and abuse:** Would reduce fraud, waste, and abuse in Medicare through several measures, including creating new initiatives to reduce improper payments in Medicare and requiring prior authorization for power mobility devices and advanced imaging, as well as other items and services at high risk of fraud and abuse. Estimated budget impact, 2015-2024: -\$0.40 billion
 - The FY2014 budget included similar provisions.
- **Delinquent tax debts:** Would levy up to 100 percent of payments to Medicare providers with delinquent tax debts, beginning in 2015. Estimated budget impact, 2015-2024: - \$0.7 billion
 - The FY2014 budget included similar provisions.

For information on Medicare provisions included in other budget proposals and laws, see Kaiser Family Foundation, “Medicare and the Federal Budget: Comparison of Medicare Provisions in Recent Federal Budget Proposals and Laws,” January 2014.