

**Highlights of the Administration's Budget Proposals for Fiscal Year 2008**  
**Prepared by Health Policy Alternatives, Inc.**

February 6, 2007

**MEDICARE**

- **The President's budget proposes to reduce Medicare spending by \$66 billion over five years (2008-2012) and \$252 billion over 10 years (2008-2017). (See table below.)** About 40% of the five-year total (\$26b) comes from reductions in the inpatient, inpatient rehabilitation, and outpatient hospital update factors and a phase out of bad debt payments. Other major reductions in provider payments include lower update factors for SNF (\$9.2b) and home health (\$9.7b) services. For inpatient and outpatient hospital payments and most other services, provider update factors are set at MB-0.65 percentage points a year. **As described, all the update factor reductions would be annual and extended permanently, beyond the five-year budget window.** That is, they would permanently lower the Medicare baseline, meaning **any full market basket update in the future would be treated as new spending.**
- **Eliminating the indexing of income thresholds for the income-related Part B premium is proposed, along with an income-related premium for the Part D drug benefit.** Together, these provisions would generate five-year savings of \$10.3 billion, taking into account both increased premium collections and decreased Medicare Part B spending. These savings would be more than offset, however, by a \$6.0 billion reduction in general Part B premium collections resulting from proposed Part B payment changes.
- **The budget emphasizes Medicare's long term financing problem,** stating that "The single largest fiscal challenge we face is the unsustainable growth in the Medicare program." **It reiterates a proposal offered last year to build on the Medicare warning provision enacted as part of the Medicare Modernization Act (MMA) by establishing an automatic annual 0.4% payment reduction** that would take effect absent other Congressional action if general fund expenditures for Medicare exceed 45%. **This reduction, should it occur, would be in addition to the update factor reductions included in the Administration's budget baseline.**
  - It is not clear from the budget documents in what year the Administration assumes this 0.4% reduction would take effect, and whether it is within the 5-year budget window for 2008-2012. Given last year's Trustees report estimate that the 45% threshold would be reached in 2012, the automatic reduction provision is virtually certain to be contributing some amount to the 10-year \$252 billion savings figure.<sup>1</sup>
- **Additional five-year Medicare savings of \$10.2 billion are projected for proposed regulatory changes involving "post-acute care provider reform, program integrity, upcoding adjustments, and other efficiency and productivity improvements."** No further details are provided.

---

<sup>1</sup> A lower five-year Medicare current law baseline reported in the OMB budget documents suggests that the trigger date may possibly shift beyond last year's 2012 forecast, but the "Medicare warning" will still be issued by the Trustees this year if the 45% threshold is expected to be reached in 2013.

- The budget proposes a **user fee to cover the costs associated with follow-up inspection visits** to health care facilities found to be out of compliance with Medicare standards. (\$173m over 5 years)
- Medicare contracting reform would be achieved by the end of FY 2009 with the \$254 million in additional funding proposed for FY 2008. This date is two years earlier than the 2011 target date set forth in the MMA.

### Summary of Proposed Medicare Savings

<b>Proposal</b>	<b>5-year savings (2008-2012) (in billions)</b>	<b>Share of legislative savings</b>
Inpatient hospital update (MB-0.65 a year)	\$13.79	21.0%
Outpatient hospital update (MB-0.65 a year)	3.36	5.1%
Inpatient rehab update (freeze in 2008, MB-0.65 a yr)	1.91	2.9%
Phase out bad debt payments	7.15	10.9%
Set base payment for 5 post-acute conditions in SNF/IRF	2.93	4.5%
Medicare Secondary Payer provisions	1.72	2.6%
Home health update (freeze 2008-2012, MB-0.65 a yr)	9.68	14.8%
SNF update (freeze in 2008, MB-0.65 a yr)	9.21	14.0%
Hospice update (MB-0.65 a year)	1.14	1.7%
Eliminate payments for “never events”	0.19	0.3%
Ambulance fee schedule update (CPI-0.65 a yr)	0.36	0.5%
Clinical lab competitive bidding	2.38	3.6%
Oxygen rental 36 to 13 months	2.38	3.6%
Establish 13 month power wheelchair rental	0.53	0.8%
Remove IME from MA plan payments	4.37	6.7%
ASC update	0.09	0.1%
Judicial review	0.08	0.1%
Eliminate indexing of income-related Part B premium	7.135	10.9%
Establish income-related Part D premium	3.242	4.9%
Premium interactions	-6.03	-9.2%
<b>Legislative Proposals Subtotal</b>	<b>65.618</b>	<b>100.0%</b>
<b>Regulatory Proposals*</b>	<b>10.235</b>	
<b>Total Legislative + Regulatory</b>	<b>\$75.853</b>	

\* Budget documents do not provide a breakdown of savings from regulatory proposals.

## MEDICAID/SCHIP

- **The combined effect of proposed legislative and regulatory changes to Medicaid would result in net five-year savings of \$25.7 billion. About half the savings would come from regulatory initiatives.** These include \$5 billion from capping payments to government providers at costs, and \$1.8 billion for eliminating Medicaid graduate medical education payments. A majority of the proposed legislative savings would come from reducing administrative matching rates and targeted case management matching rates to 50 percent (\$6.5 billion combined).
- **The Administration’s proposed reauthorization of the State Children’s Health Insurance Program (SCHIP) would increase state allotments by \$5 billion over the 2008-2012 period in order to maintain current enrollment levels for children under 200% of the federal poverty level.** The budget documents suggest that in the 16 states that have established SCHIP eligibility at higher income levels federal matching funds would be reduced or eliminated. The Administration will also seek authority to target SCHIP funds to those states most in need.

### Summary of Proposed Medicaid Savings

<b>Proposal</b>	<b>5-year savings (2008-2012) (in billions)</b>	<b>Share of total savings</b>
Align all administrative rates at 50%	\$5.315	20.7%
Recoup administrative costs included in TANF grants	1.770	6.9%
Link State performance to Federal grant awards	0.330	1.3%
Reimburse targeted case management at 50%	1.160	4.5%
Reduce federal upper limit for multiple source drugs to 150% of the AMP of the lowest price drug in the group	1.200	4.7%
Leverage greater drug discounts by allowing states to use private sector management techniques	0.870	3.4%
Require tamper resistant prescription pads	0.210	0.8%
Expand asset verification demonstration	0.640	2.5%
Enhanced third party liability	0.085	0.3%
Cap home equity definition at \$500,000	0.430	1.7%
Adjustment for QI transfers from Medicare	0.425	1.7%
SCHIP reauthorization (Medicaid impact)	1.770	6.9%
Legislative Spending Proposals*	-1.189	-4.6%
<b>Legislative Proposals Subtotal</b>	<b>13.016</b>	<b>50.6%</b>
Regulatory -- Revise Payments for Government Providers	5.000	19.4%
Regulatory -- Eliminate Medicaid GME	2.290	8.9%
Other Regulatory Proposals	5.425	21.1%
<b>Total Legislative + Regulatory</b>	<b>\$25.731</b>	<b>100.0%</b>

\* Extensions of Transitional Medicaid Assistance, Qualified Individual Program and Refugee exemption

## PROPOSED APPROPRIATIONS FOR HEALTH PROGRAMS

The President's fiscal year 2008 budget proposes a **1.0 percent increase in total discretionary spending for nondefense/homeland security programs** from 2007 levels, or \$3.6 billion. In total, appropriations for **the National Institutes of Health would increase by \$232 million (0.8%) above the amounts provided in the 2007 continuing resolution**, the **Health Resources and Services Administration total would decrease by \$343 million (-5.6%)** the **Centers for Disease Control and Prevention would receive \$20 million less (-0.3%)**, and the **Agency for Health Care Research and Quality would receive an \$11 million increase (3.4%)**. Among specific programs:

- **The budget requests an additional \$224 million for Community Health Centers (for a total of almost \$2 billion)**, which the Administration says would serve an additional 1.3 million clients by establishing 220 new access points in high-poverty areas and providing 120 expanded medical capacity grants. Funding for **Ryan White HIV/AIDS activities is proposed to increase by \$95 million.**
- Funding for the **health professions training** would drop to only \$10 million from \$145 million in FY2007. **National Health Service Corps** funding would be reduced by \$10 million, for a total of \$116 million.
- Funding for **advanced education nursing programs** would be eliminated (-\$57m) while the nursing loan repayment and scholarship program would receive an increase of \$13 million.
- **Bioterrorism hospital preparedness** would be funded at \$414 million, a reduction of \$60 million from 2007 levels.
- Special **graduate medical education payments for children's hospitals** would be reduced from \$297 million to \$110 million and funding for **rural health would be cut from \$160 million to \$17 million.**
- The **budget proposes to terminate** several HRSA programs, including **Emergency Medical Services for Children (-\$20m)** and the **Traumatic Brain Injury program (-\$9m).**

## TAX TREATMENT OF HEALTH INSURANCE

- As previously announced, the **Administration proposes to tax the value of employer-provided health insurance and introduce a standard health insurance deduction of \$7,500 for individuals and \$15,000 for families.** As a result, individuals for which employer health insurance contributions exceed these levels would be taxed on the excess amounts. Currently available health care deductions and exclusions would be eliminated for individuals not enrolled in Medicare, but the preferential tax treatment of Health Savings Accounts would be maintained. Treasury estimates an additional 3 to 5 million people would obtain health coverage under this proposal, at a net cost of \$135 billion for the 2009-2012 period (four years).
- **Changes to existing Health Savings Accounts provisions are proposed**, including changes to requirements for high deductible health plans that permit plans with lower deductibles to qualify if they impose coinsurance of at least 50 percent. The proposed changes to HSAs would reduce federal revenue by \$3.7 billion over 5 years.

## **BUDGET ENFORCEMENT**

The budget repeats several budget enforcement proposals made in earlier years.

- The Administration repeats its proposed version of a **pay-as-you-go requirement that spending increases for entitlements (such as Medicare) be offset by corresponding spending reductions**. Under this version, proposed tax cuts would not be subject to the 60-vote pay-as-you-go requirement, and **spending increases could not be offset by revenue increases**. In addition, the budget scoring baseline would be adjusted to assume extension of expiring tax cuts. This would have the effect of eliminating any budgetary cost for legislation to extend the tax cuts.
- A **"long-term unfunded obligations" provision is also proposed, which would establish a 60-vote point-of-order in the Senate against legislation that worsens the unfunded obligation of Medicare and other major entitlement programs**.
- The Administration seeks a **line item veto authority** for the purpose of deficit reduction.