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Special Bulletin

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White House Releases FY 2021 Budget Request with Proposed Medicare, Medicaid Reductions

Drug pricing, opioid and other health-related proposals also part of request

President Trump today submitted to Congress his budget request for fiscal year (FY) 2021. The budget request, which is not binding, proposes hundreds of billions of dollars in reductions to Medicare and Medicaid over 10 years. The budget request also contains a number of provisions related to drug pricing, opioids and other health-related issues.

AHA Take: In a statement, AHA President and CEO Rick Pollack said, "Hospitals and health systems remain steadfast in our commitment to stand up for patients and families. Every year, we adapt to a constantly changing environment, but every year, the Administration aims to gut our nation's health care infrastructure. The proposals in this budget would result in hundreds of billions of dollars in cuts that sacrifice the health of seniors, the uninsured and low-income individuals. This includes the one in five Americans who depend on Medicaid, of which 43% of enrollees are children.

The budget's proposal on Medicaid financing and service delivery would cut hundreds of billions of dollars from the Medicaid program. This would further cripple Medicaid financing in many states and jeopardize access to care for the 75 million Americans who rely on the program as their primary source of health coverage.

In addition to the hundreds of billions in proposed reductions to Medicare, the blueprint includes cuts we strongly oppose for care in hospital outpatient departments, teaching hospitals and post-acute care providers. These cuts fail to recognize the crucial role hospitals serve for their communities, such as providing 24/7 emergency services. Post-acute cuts threaten care for patients with the most medically complex conditions. The cuts also undermine medical advances and the availability of around-the-clock services exclusive to teaching hospitals, and the training they provide to those who will become our nation's future physicians.

Medicaid and Medicare – and the other essential health care programs at risk of reductions – have made a real difference in millions of Americans' lives and we will continue to defend them."

Highlights of the budget request follow.

Key Takeaways

- President Trump's FY 2021 budget proposal is non-binding and predominantly serves as a messaging document laying out the administration's funding priorities.
- **Health Reform Allowance** – The budget request proposes an allowance for health care reform that would result in $844 billion in savings.
- **Medicare** – The budget proposes reductions to Medicare of $478.5 billion over 10 years, including hundreds of billions in cuts to payments for hospital services.
- **Medicaid** – The budget proposal includes a number of legislative and regulatory changes that would provide states with increased flexibility, as well as restrict eligibility, program funding and hospital payment.
- **Other Proposals** – Among other proposals, the budget includes funding to address the opioid crisis and support veterans' health services.

PRESIDENT'S HEALTH REFORM VISION ALLOWANCE

The President's Health Reform Vision would build on efforts outlined in the Executive Order, "Improving Price and Quality Transparency in American Healthcare To Put Patients First." The allowance focuses on lowering the price of medicine, ending surprise medical bills, breaking down barriers to choice and competition, and reducing unnecessary regulatory burdens. The proposal would save $844 billion over 10 years.

MEDICARE

The budget proposes $478.5 billion in Medicare reductions over 10 years. Among other Medicare-related changes, the budget proposes:

- **Bad Debt.** Reduce bad debt payments to providers (from 65% to 25%), by $34 billion over 10 years.
- **Graduate Medical Education (GME).** Consolidate GME spending from Medicare, Medicaid and the Children's Hospitals GME program into a single grant program. This policy would result in $52 billion in savings over 10 years.
- **Uncompensated Care.** Remove the payment from the Medicare system and index total amount of disproportionate share hospital (DSH) uncompensated care payments to inflation, thereby reducing payments by $88 billion over 10 years.
- **Post-acute Care Payments.** Create a unified post-acute care payment system, reducing payments to providers by $101 billion over 10 years.
- **Long-term Care Hospital (LTCHs) Payments.** Raise the intensive care unit-stay threshold from three to eight days in order for LTCHs to qualify for the full LTCH prospective payment system rate, reducing payments to providers by $9.4 billion over 10 years.
- **Site-neutral Payment Policies.** Pay off-campus hospital outpatient departments at the physician office rate, reducing payments by $47 billion over 10 years. Expand the site-neutral policy and pay on-campus hospital outpatient departments at the physician office rate for certain services, reducing payments by an additional $117 billion over 10 years.
- **96-hour Rule for CAHs.** Eliminate the requirement that physicians certify that all CAH patients are expected to be discharged within 96 hours of admission.
- **Redesign Hospital Outpatient and Ambulatory Surgical Center Payment Systems to Make Risk-Adjusted Payments.** Risk-adjust payments to these facilities based on the severity of patients' diagnoses. These adjustments would be made in a budget-neutral manner.
- **Consolidated Hospital Quality Payment Program.** Create a consolidated hospital quality payment program.
- **Value-based Purchasing (VBP) Programs.** Implement VBP programs for the outpatient hospital and ambulatory surgical center payment systems.
- **Accountable Care Organizations (ACOs).** Allow beneficiary assignment to ACOs to be based on a broader set of primary care providers, including nurse practitioners, physician assistants, and clinical nurse specialists, in addition to physicians. These changes reduce spending by $80 million over 10 years.

- **Merit-based Incentive Payment System (MIPS).** Simplify MIPS for physicians and other clinicians, with no spending reductions.
- **Prior Authorization.** Expand prior authorization to include additional items and services, generating $14 billion in savings over 10 years.
- **Medical Liability Reform.** Cap awards for noneconomic damages; provide a three-year statute of limitations; and create safe harbors for providers based on clinical standards. This policy would reduce Medicare spending by $40 billion.

MEDICAID

The budget proposal includes a number of legislative and regulatory changes that would provide states with increased flexibility, but would restrict eligibility, program funding and hospital payments resulting in significant savings. The proposal calls for a cut of over $900 billion over 10 years.

The budget also includes policies that implement the Centers for Medicare & Medicaid Services proposed rule that would significantly change hospital supplemental payments and state Medicaid program financing. With regard to state Medicaid financing, CMS proposes significant policy changes to health care-related taxes (provider taxes), bona fide provider donations and intergovernmental transfers.

Among other Medicaid-related changes, the budget proposes to:

- Extend the current law on Medicaid disproportionate share hospital (DSH) allotment reductions for an additional five years through FY 2030 ($32 billion in savings over 10 years).
- Apply work requirements for able-bodied individuals to receive Medicaid ($152 billion in savings over 10 years).
- Require documentation of satisfactory immigration status before receipt of Medicaid benefits ($2.6 billion in savings over 10 years).
- Increase co-payments for non-emergency use of the hospital emergency department ($1.8 billion in savings over 10 years).
- Apply asset tests to determine Medicaid eligibility using the Modified Adjusted Gross Income ($2.2 billion in savings over 10 years).
- Limit Medicaid reimbursement for public hospitals so that payment could not exceed the cost of providing services to Medicaid beneficiaries (no budget impact available).
- Make permanent Medicaid managed care waiver programs and increase state flexibility for 1915 (b) managed care waivers (no budget impact).

DRUG PRICING AND 340B PROGRAM

The budget request includes a number of provisions intended to address high and rising drug prices, including through changes in Medicare and Medicaid policy, as well as changes in the 340B Drug Pricing Program and Food and Drug Administration (FDA) drug approvals.

In particular, the budget proposes several changes to the 340B program. A new user fee would be imposed on all drugs purchased by 340B covered entities, resulting in an increase of $24 million in fees in FY 2021. The proposal would grant broader regulatory authority to the Health Resources and Services Administration (HRSA) and require all covered entities to report on use of program savings to ensure the program benefits low-income and uninsured individuals.

Other proposals intended to address the high and rising cost of drugs include:

- Support changes to bring lower cost generic and biosimilar drugs to patients via increased competition.
- Support legislative efforts to ensure manufacturers pay an appropriate share of Medicaid rebates, and authorize innovative Medicaid drug payment arrangements to lower costs for taxpayers.
- Language in the budget appears to describe the drug pricing proposal that passed the Senate Finance Committee in 2019. The budget includes a savings of $135 billion over 10 years.

OTHER HEALTH-RELATED PROVISIONS

Opioid Funding. The budget provides $5 billion to combat the opioid overdose epidemic. This funding includes $1.6 billion for State Opioid Response grants, which support prevention, treatment, and recovery support services.

Funding to Support Veterans' Health. The budget proposes $90 billion to fund Department of Veterans Affairs (VA) medical care requirements in 2021. The funding proposal would support continued integration of the AHA-supported VA Maintaining Internal Systems and Strengthening Integrated Outside Networks Act of 2018, known as the MISSION Act.

HHS Funding. The budget requests $96.4 billion in funding for the Department of Health and Human Services, a 9% reduction from last year's enacted level.

Funding to Improve Maternal Health. The budget provides $74 million in new resources to address maternal mortality and morbidity by focusing on achieving healthy outcomes for all women of reproductive age by improving prevention and treatment; achieving healthy pregnancies and births by prioritizing quality improvement; achieving healthy futures by optimizing postpartum health; and improving data and bolster research to inform the future.

Improving Access to Rural Health Care. The budget proposes expanding access to telemedicine services and modifying payments to rural health clinics to ensure that Medicare beneficiaries continue to benefit from primary care services in their communities. The budget also proposes to allow critical access hospitals to voluntarily convert to rural standalone emergency hospitals and remove the requirement to maintain inpatient beds. In addition, the budget maintains funding for Rural Health Outreach grants in the Health Resources and Services Administration.