

## President Obama's Fiscal Year 2017 Budget Proposal

### OVERVIEW

On February 9<sup>th</sup>, President Barack Obama released his FY 2017 Budget proposal. The document sets forth recommendations for federal spending in the coming year, but has no force of law. The \$4.1 trillion Budget is projected to reduce the deficit by \$2.9 trillion, including \$375 billion in health care savings, over the next ten years. The Budget proposal allocates \$82.8 billion in discretionary funding for the Department of Health and Human Services (HHS), a 1 percent decrease from FY 2016.

This document summarizes key health care provisions of the Budget proposal. The President's FY 2017 Budget is available [here](#). The HHS FY 2017 Budget in Brief is available [here](#).

### AFFORDABLE CARE ACT

The Budget proposes several changes to provisions of the Affordable Care Act (ACA), including the high-cost plan tax, commonly referred to as the "Cadillac Tax," and the Independent Payment Advisory Board (IPAB).

#### Cadillac Tax

The Budget proposes to modify the threshold for which the Cadillac Tax is triggered to account for regional differences in health insurance costs. Under current law, the tax will be imposed on health insurance plans that cost more than \$10,200 for self-only coverage and \$27,500 for family coverage, beginning in 2018. The Budget proposes to raise the threshold to the average premium of a gold Marketplace plan in those states where this average is higher than the current law threshold. The White House estimates this change would cost \$1.26 billion over the next decade.

#### IPAB

Under current law, if Medicare per capita spending is projected to exceed the gross domestic product (GDP) by 1 percent, the IPAB must propose cuts to Medicare spending. Congress may either enact these cuts or replace them in order to reach the GDP plus 1 percent target. The Budget proposes to lower the target rate for triggering an IPAB proposal from 1 percent to 0.5 percent above the GDP, beginning in 2018. The White House estimates that this modification would save \$36.4 billion over the next decade.

## **MEDICARE**

The Budget proposes numerous changes to the Medicare program, including modifications to post-acute care, Medicare Advantage, and Medicare Part D.

### **Bundled Payments for Post-Acute Care**

The Budget proposes to implement bundled payments for at least half of the total payments for post-acute care providers, beginning in 2021. Post-acute care providers would include long-term care hospitals, inpatient rehabilitation facilities, skilled nursing facilities, and home health providers. This proposal is projected to save \$9.9 billion over the next decade.

### **Medicare Advantage**

The Budget proposes a Medicare Advantage competitive bidding system that would encourage plans to submit lower bids and deliver efficient care. Under a competitive bidding system, the Centers for Medicare and Medicaid Services (CMS) would set a benchmark, or maximum amount that Medicare will pay a plan in a given area, based on the average plan bid rather than historic costs. Plans would be allowed to retain 100 percent of the difference between their bid and the benchmark. This proposal is estimated to save \$77.2 billion over 10 years.

### **Medicare Part D**

The Budget proposes to allow the Secretary of HHS to negotiate the prices of high-cost drugs and biologics, suspend coverage and payment for certain Part D prescriptions, and establish a value-based payment methodology for Part D plans to reward quality and improved performance.

The Budget proposes to accelerate closing the Medicare Coverage Gap, by increasing manufacturer rebates from 50 to 75 percent in 2018, instead of 2020. This proposal is estimated to save approximately \$10 billion over 10 years.

The Budget also proposes to require drug manufacturers to provide Medicaid-level rebates for Medicare beneficiaries who receive the Part D Low-Income Subsidy, beginning 2018. This proposal is projected to save approximately \$120 billion over 10 years.

## **MEDICAID AND CHIP**

The Budget would make several changes to the Medicaid and the Children's Health Insurance Program (CHIP), including proposals to expand coverage and lower prescription drug costs.

### **Coverage Expansion**

The Budget proposal would extend funding for CHIP by two years, through 2019. The Budget also proposes to extend full Medicaid coverage to pregnant and postpartum beneficiaries, improve access to preventive services and tobacco cessation programs, and ensure that children in inpatient psychiatric treatment facilities have access to comprehensive benefits. The Budget

would also allow states to offer one year of continuous Medicaid eligibility to qualifying adults. Collectively, these proposals would cost approximately \$5.9 billion over 10 years.

### **Prescription Drug Costs**

The Budget proposes to lower Medicaid prescription drug costs by establishing a Federal-State Medicaid negotiating pool for high cost drugs, reforming the Medicaid drug rebate program to improve manufacturer compliance, and adjusting the ACA Medicaid rebate formula for new drugs. These proposals are estimated to generate \$11.4 billion in savings over 10 years.

### **GRADUATE MEDICAL EDUCATION**

The Budget proposes a 10 percent cut to Medicare add-on payments paid to teaching hospitals for the indirect costs of medical education, beginning in 2017. Additionally, the Secretary of HHS would be granted the authority to set standards for teaching hospitals to encourage training in emerging areas of need, such as primary care and medication-assisted treatment of substance abuse. This proposal is projected to save \$17.8 billion over the next 10 years.

### **NIH FUNDING**

The President's Budget proposes \$33.1 billion towards biomedical research at the National Institutes of Health (NIH). The Budget would increase total net outlays to the NIH by \$825 million from FY 2016, but decrease discretionary spending by approximately \$1 billion.

### **Cancer Moonshot**

On January 13<sup>th</sup>, President Obama announced his support for a national effort to find a cure for cancer during the State of the Union address. The Budget supports President Obama's cancer "moonshot," a multi-year initiative to cure cancer by enhancing investments in research. Within the President's Budget for the NIH, \$680 million would be earmarked to accelerate progress in preventing, diagnosing, and treating cancer. The Budget also earmarks \$75 million within the FDA's proposed Budget to improve and expedite the regulatory process for new cancer treatments.

### **BEHAVIORAL HEALTH**

The Budget proposes to allocate \$500 million to expand mental health services through the Substance Abuse and Mental Health Services Administration's (SAMHSA) Certified Community Behavioral Health Clinic demonstration. The Budget proposes an additional \$108 million for SAMHSA to enhance behavioral health services for young people, support the development of community-based behavioral health services, and address suicide among older adults through the President's "Now is the Time" initiative.

### **Electronic Health Record (EHR) Incentives for Behavioral Health**

The Budget proposes to expand the Medicare and Medicaid EHR Incentive Programs to include psychiatric hospitals, community mental health centers, residential and outpatient mental health

and substance use disorder treatment clinics, and psychologists. This proposal is estimated to cost \$760 million in Medicare costs over 10 years.

## **SUBSTANCE ABUSE**

To address the opioid epidemic, the Budget proposes \$1 billion to expand the National Health Service Corps' addiction treatment workforce and support state efforts to enhance access to treatment for substance use disorders. Funding would be allocated based on the severity of the epidemic in each state. The Budget also proposes \$500 million for HHS and the Department of Justice to improve prescription drug overdose prevention strategies and expand access to medication-assisted treatment programs and the overdose-reversal drug, naloxone.