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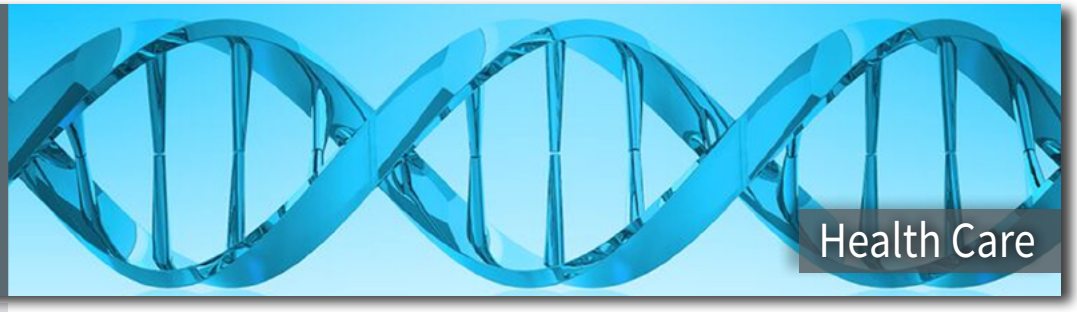

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Profound Impact to Health Care: The President's Proposed FY18 Budget and CBO's Cost Estimate of AHCA

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In this Issue:

Two important government documents were recently released: President Trump's Fiscal Year 2018 budget proposal to Congress, and the Congressional Budget Office's cost estimate of the American Health Care Act (AHCA), H.R. 1628, as passed by the U.S. House of Representatives.

These two documents are closely connected – the President's budget assumes Congressional passage of H.R. 1628, which includes an over $800 billion reduction in Medicaid over 10 years. The President's budget also includes an additional $600 billion in Medicaid cuts. **If enacted, the impact on Medicaid beneficiaries and providers would be profound. This alert provides a brief description of both the CBO estimate and the President's health care budget proposals.**

American Health Care Act

Congressional Budget Office Cost Estimate

The Congressional Budget Office (CBO) posted its latest cost estimate of H.R. 1628, the "American Health Care Act of 2017." According to CBO, the bill would reduce the deficit over 10 years by $119 billion, $32 billion less than the estimated net savings of the version posted on the Rules Committee's website on March 22. Overall, the bill would reduce direct spending by $1.1 trillion and reduce revenues by $992 billion. Prior to the Rules Committee's amended bill, CBO estimated the legislation would reduce the deficit by $150 billion over 10 years.

CBO and the Joint Committee on Taxation (JCT) estimate 14 million people would lose health insurance in 2018, rising to 19 million in 2020 and 23 million in 2026. In 2026, "an estimated 51 million people under age 65 would be uninsured, compared with 28 million who would lack insurance that year under current law."

Outlook

Senate Majority Leader Mitch McConnell [R-KY] created a group of 13 Republican Senators charged with coming up with a Senate alternative to the House-passed bill. The group has a division of labor. The key is resolving issues with regard to the potential number of uninsured and the Medicaid reductions. Four Senators are charged with working on potential Byrd Rule challenges.

Prior to CBO releasing its latest cost estimate of H.R. 1628, Senator McConnell said he has yet to hit upon a formula for repealing Obamacare and replacing it with a new health care program, saying "I don't know how we get to 50 votes at the moment. But that's the goal." Senator McConnell can only afford to lose two Republican Senators (utilizing Vice President Pence to break a tie) in order to pass a bill.

President's Fiscal Year 2018 Budget Health Proposals

Department of Health and Human Services

Centers for Medicare and Medicaid Services [CMS]

- The President's budget includes $1 trillion in mandatory and discretionary outlays for the Centers for Medicare & Medicaid Services (CMS), an increase of $13 billion from FY 2017 levels.
- The budget requests $2.1 billion for the Health Care Fraud and Abuse Control program, including $1.4 billion in mandatory funding and $751 million in discretionary funding. This is an increase of $70 million over FY 2016 enacted levels. This funding will expand the ability of the program to address fraud and abuse efforts on the front end and reducing improper payment rates in Medicare and Medicaid.
- The budget reduces funding for CMS program management by $379 million.

Medicare

- The budget does not include any direct cuts to Medicare.
- The budget proposes to repeal the Independent Payment Advisory Board (IPAB) and this proposal will cost $7.6 billion over 10 years.
- The budget includes $1.3 billion in mandatory funding over 10 years to address the Medicare appeals backlog through system reforms and additional resources to directly address the backlog of pending appeals. The budget also includes proposals with no budgetary impact that would use magistrate adjudication instead of administrative law judge adjudication for claims below a certain threshold, incentivize appellants to submit all evidence early in the appeals process, and expedite decisions for cases with no material fact in dispute.
- The budget proposes to recoup $31.4 billion in savings over 10 years through medical liability reform proposals. These proposals will curb the provision of unnecessary services in Medicare.

Medicaid & CHIP

- The budget makes fundamental reforms to Medicaid's fiscal structure and gives states increased flexibility in managing the program. Beginning in FY 2020, Medicaid funding would be distributed to states through either a per capita cap or block grant system. These proposals will result in a net savings to Medicaid of $627 billion over 10 years. These savings are in addition to those from the House-passed AHCA, which would cut Medicaid by over $800 billion over 10 years.
- The budget includes proposals to expand Medicaid Direct Primary Care (DPC), which is a primary care centered program that has the potential to enhance patient-physician relationships.
- The budget includes broader proposals to reform medical liability, which will reduce medical malpractice costs and the practice of defensive medicine. These proposals are expected to save

the Medicaid program $399 million over 10 years.

- The budget will extend CHIP funding for two years, which results in a net savings of $5.8 billion. The proposal ends the 23 percentage point increase in the enhanced Federal match rate and the current law maintenance of effort requirement after FY 2017. This proposal caps the level at which states can receive the CHIP enhanced Federal matching rate at 250 percent of the Federal Poverty Level (FPL). It would also move children aged 6 to 18 in families with incomes between 100 and 133 percent of the FPL from Medicaid to CHIP.

Health Resources and Services Administration [HRSA]

- Reduces Ryan White HIV/ AIDS Programs by $59 million--$2.2 billion
- Reduces Healthcare systems by $4 million--$99million
- Reduces Rural Health funding by $75 million--$74 million
- And provides $10 million for the 340B Drug Pricing Program, level funding from 2017. The budget also proposes to update regulatory authority in the 340B program to increase transparency and improve program integrity.

The budget proposes elimination of the following programs:

- ***Health Workforce***
    1. Training for Diversity--$83 million reduction
    2. Training in Primary Care Medicine--$39 million reduction
    3. Oral Health Training--$36 million
    4. Area Health Education Centers--$30 million
    5. Public Health and Preventive Medicine Education--$21 million
    6. Additional Health Workforce Programs--$48 million
- ***Maternal and Child Health***
    1. Sickle Cell Demonstration--$4million
    2. Autism and Developmental Disorders--$47 million
    3. Heritable Disorders--$14 million
    4. Universal Newborn Hearing Screening--$18 million
    5. Emergency Medical Services for children--$20 million
- ***Ryan White HIV/AIDS Program***
    1. AIDS Education and Training Centers- Part F--$34 million
    2. Special Projects of National Significance--$25 million
- ***Rural Health***
    1. Rural Hospital Flexibility Grants--$42 million
    2. State Office of Rural Health--$9 million

Health Professions Education

National Health Service Corp touted by the President's budget as one of the "Nation's most effective programs in placing health care professionals in communities with the greatest need":

- The President's FY18 budget included the mandatory resources of $310 million for the National Health Service Corps. This funding will provide scholarships and loan repayment to health professionals in return for service is health professional shortage areas (HPSA's).

Teaching Health Centers Graduate Medical Education sees slight increase in FY18 funding proposal:

- With an increase of $4 million, Teaching Health Centers Graduate Medical Education will receive $60

million in mandatory funding under the President's plan. Since its inception in 2010, these funds have gone from supporting 11 residency programs to 59 programs.

Children's Hospital Graduate Medical Education receives one million dollars:

- $295 Million has been suggested for the Children's Hospital Graduate Medical Education to provide health care needs to our nation's children.

Other Health Care Workforce Training Programs proposed for elimination:

- Training for Diversity went from $83 million to zero.
- Training in Primary Care Medicine reduced from $39 million to zero, which impacts providers, including PA's in Primary Care.
- Oral Health Training decreased from $36 million to zero.
- Area Health Education Centers lowered from $30 million to zero.
- AIDS Education and Training Centers – Part F- eliminated the $34 million to zero.
- Behavioral Health Workforce Education & Training down from $50 million to zero, which impacts such professions as behavioral pediatrics, social work, marriage and family therapy, occupational therapy, school counseling, and professional counseling.

Big Decrease for Nurses/Nursing Education:

- The bread and butter of Nursing, Title VIII Nursing Workforce and Development programs, sees a 64% ($146 million) decrease in funding. This leaves only $82.977 million left for Nursing Workforce Programs. This remaining funding is allocated to the NURSE Corps (Loan Repayment and Scholarship program). Under the President's FY18 Budget, the following programs under Title VIII would be cut:
  - Advance Nursing Education Grants (ANE), (ANE) Traineeships, and Nurse Anesthetist Traineeships
  - Nurse Education, Practice, Quality, and Retention Program
  - Nurse Faculty Loan Program
  - Nurse Workforce Diversity Grants
  - Comprehensive Geriatric Education Grants

- ***340B***

As of October 1, 2016, there were 12,148 covered entities and 25,348 associated sites participating in the 340B program. Twenty-seven percent of these entities have contract pharmacy arrangements, which result in the registration of approximately 18,078 unique pharmacy locations in the program.

The budget requests $10.2 million for the 340B program, the same as in the FY 2017 Continuing Resolution.

The Administration also intends to work with Congress to develop legislation to improve the program's integrity, and ensure that the program is benefiting the low-income and uninsured patient populations that the program was created to help.

HRSA specifically wants to use the funding to:

- Educate covered entities about the 340B program's statutory requirements;
- Increase program compliance through expanded oversight and;
- Conduct audits of manufacturers to increase program compliance.

HRSA is also working to strengthen the program by implementing the following OIG and GAO recommendations:

Price Verification – Compute the 340B ceiling prices using data that manufacturers supplied to CMS, based on an agreement with HRSA.

Refunds and Credits – Facilitate the process for refunds and credits to entities who were overcharged by participating manufacturers.

Pricing System – Continue to develop a system whereby covered entities can access 340B ceiling price information via a secure website. The system will allow manufacturers to submit 340B price information, allowing regular spot checks of prices and any necessary follow up on pricing errors.

Department of Veterans Affairs

- Request includes $82.1 billion (including medical care collections) in discretionary funding, of which $66.4 billion was previously provided as the VA Medicare Care 2018 Advance Appropriation.
- $104.3 billion for mandatory funding.
- Request includes $70.7 billion in discretionary funding for Medical Care.
- Key focus areas include:

1. Caregivers
2. Hepatitis C
3. Women Veterans
4. Mental Health
5. Rural Health
6. Homeless Programs
7. Opioid Therapy and Pain Management Safety
8. Community Care

Department of Defense

- Request includes $51.0 billion for the DoD Unified Medical Budget to support the Military Health System's (MHS) 9.5 million eligible beneficiaries, which includes active military members and their families, military retirees and their families, dependent survivors, and certain eligible reserve component members of their families.
- DoD health care costs have grown from 4 percent of the department's base budget in 1990 to nearly 10 percent in 2015.
- The request asks Congress to repeal the reform provision that raises out of pocket expenses for individuals who enter service after January 1, 2018.
- Proposal to streamline the current TRICARE managed care and fee-for-service options (Prime, Standard, and Extra) into a simplified structure.
- Other requested changes include:

1. Simpler system
2. Cost shares
3. Participation fee for retirees (not medically retired), their families, and survivors of retirees—pay an annual participation fee or forfeit coverage for the plan year
4. Increase the catastrophic cap, which has not increased in 10 years
5. Annual increase in premiums, co-pays, deductible and catastrophic caps would increase annually based on the increases in health care costs as measured by the growth in National Health Expenditures per capita
6. Increase co-pays for pharmaceuticals

Office of National Drug Control Policy

- Total ONDCP: decrease of $10.55 million from 2017 CR, a change of -2.78%
    - Operations: a decrease of $1.61 million, a change of -8.05%
    - High intensity drug trafficking area program: a decrease of $3 million, a change of -1.2%
    - Other Federal Drug Control Programs: $5.94 million, a change of -5.4%

Office of Personnel Management

- OPM's Healthcare & Insurance (HI) program oversees the management of insurance benefits for more than 8.2 million federal employees, retirees, and their families, as well as tribal employees and their families.
- OPM is responsible for implementing and overseeing the Multi-State Plan (MSP) program, authorized by the Affordable Care Act (ACA), to make health insurance better available.
- OPM contracts with health insurance insurers to offer health plans through the Health Insurance Marketplace (also known as the Affordable Insurance Exchange).
- HI will:
    1. Manage programs to evaluate health insurance issuers applying to offer MSPs, to certify and recertify MSPs for sale on the Marketplace, and to transfer MSP data to the State-Based, Partnership, and federally facilitated Marketplaces.
    2. Develop and operate a new automated program to assist in the processing of consumer and issuer appeals.
    3. Monitor MSP contractor performance and quality.
    4. Use new metrics to measure health carrier contract performance.

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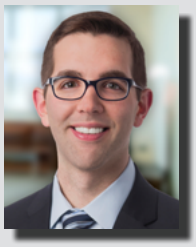

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