**Overview of Select Health Provisions – FY 2015 Administration Budget Proposal**

On March 4, 2014, President Obama released his FY 2015 budget proposal to Congress. This is the base budget proposal that Congress will consider as it develops the federal budget for FY 2015. The President's budget assumes enactment of certain legislative proposals that would make key changes in Medicare program policy and save $407 billion over 10 years. Some of these provisions could be addressed when Congress considers Medicare payment reform.

Select policy provisions requiring legislative action include:

<u>Require Prior Authorization for Advanced Imaging</u>
Currently, CMS has authority to require prior authorization for Medicare Durable Medical Equipment service items. The budget proposes that this authority be extended to all Medicare fee-for-service items, particularly those service items that are at the highest risk for improper payment. Specifically, the budget proposal would require the Secretary to implement prior authorization in two service areas: power mobility devices and advanced imaging. [$90 million in savings over 10 years]

<u>Exclude Certain Services from the In-Office Ancillary Services Exception</u>
The in-office ancillary services exception to the physician self-referral law was intended to allow physicians to self-refer for certain services to be furnished by their group practices for patient convenience. The budget notes that while there are many appropriate uses for this exception, certain services, such as advanced imaging and outpatient therapy, are rarely furnished on the same day as the related physician office visit. Additionally, the budget suggests there is evidence that this exception may have resulted in overutilization and rapid growth of certain services. Effective calendar year 2016, this proposal would amend the in-office ancillary services exception to prohibit certain referrals for radiation therapy, therapy services, advanced imaging, and anatomic pathology services except in cases where a practice meets certain accountability standards, as defined by the Secretary. [$6 billion in savings over 10 years]

<u>Reduce Medicare Coverage of Bad Debts</u>
Generally, Medicare currently reimburses 65 percent of bad debts resulting from beneficiaries' non-payment of deductibles and coinsurance after providers have made reasonable efforts to collect the unpaid amounts. Starting in 2015, the budget proposal would reduce bad debt payments to 25 percent over 3 years for all providers who receive bad debt payments. This proposal would more closely align Medicare policy with private payers, who do not typically reimburse for bad debt. [$30.8 billion in savings over 10 years]

<u>Reduce Critical Access Hospital (CAH) Reimbursements to 100 percent of Costs</u>

Medicare currently pays CAHs 101 percent of reasonable costs. This proposal would reduce this rate to 100 percent beginning in 2015. [$1.7 billion in savings over 10 years]

Prohibit Critical Access Hospital Designation for Facilities that are Less Than 10 Miles from the Nearest Hospital
Beginning in 2015, this proposal would prevent hospitals that are within 10 miles of another hospital from maintaining designation as a CAH and receiving the enhanced payment rate. These hospitals would instead be paid under the applicable prospective payment system. [$720 million in savings over 10 years]

Modernize Payments for Clinical Laboratory Services
This proposal would lower the payment rates under the Clinical Laboratory Fee Schedule by -1.75 percent every year from 2016 through 2023 to better align Medicare payments with private sector rates. The Secretary of Health and Human Services would also have the authority to adjust payment rates under the schedule in a budget neutral manner. Additionally, the Budget supports policies to encourage electronic reporting of laboratory results. [$7.9 billion in savings over 10 years]

Modify Reimbursement for Part B Drugs
To reduce excessive payment for Part B drugs administered in the physician office and hospital outpatient settings, the budget would lower payment from 106 percent of the Average Sales Price (ASP) to 103 percent of ASP starting in 2015. If a physician's cost for purchasing the drug exceeds ASP + 3 percent, the drug manufacturer would be required to provide a rebate such that the net cost to the provider to acquire the drug equals ASP + 3 percent minus a standard overhead fee to be determined by the Secretary. This rebate would not be used in calculating ASP. The Secretary would also be given authority to pay a portion or the entire amount above ASP in the form of a flat fee rather than a percentage, with the modification to be made in a budget neutral manner relative to ASP + 3 percent. [$6.8 billion in savings over 10 years]

Allow Civil Monetary Penalties for Providers and Suppliers who Fail to Update Enrollment Records
Currently, providers and suppliers are required to update enrollment records to remain in compliance with the Medicare program. This budget proposal would allow penalties if providers and suppliers fail to update their records. [$90 million in savings over 10 years]

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**Overall Funding Levels - National Institutes of Health**

The FY 2015 Budget includes $30.4 billion for the National Institutes of Health (NIH), an increase of $211 million, or 0.7 percent over FY 2014. For the National Heart, Lung and Blood Institute, the budget proposes a funding level of $2.988 billion.

In FY 2015, NIH estimates it will support a total of 34,197 research project grants, including 9,326 new and competing awards. The budget estimates about 83 percent of the funds appropriated to NIH would go to the extramural community. Approximately 11 percent of the budget would support intramural research and training activities.

Research Project Grants

NIH estimates that it will devote $16.2 billion, or 53 percent of its total budget, to finance a total of 34,197 competitive, peer-reviewed, and largely investigator-initiated research project grants (RPGs) in FY 2015. Within this total, NIH anticipates supporting 9,326 new and competing RPGs, an increase of 329 grants over FY 2014 levels.

Supplemental Grant Funding

An additional $970 million would be provided to increase the number of new grants funded by 650, and provide additional resources for activities including the BRAIN Initiative, improving the sharing and analysis of complex biomedical data sets, expanding research on Alzheimer's disease and vaccine development, and further accelerating partnership efforts to identify and develop new therapeutic drug targets.

NIH Diversity Efforts

NIH will also continue to implement a series of steps to enhance its effort to recruit and advance the careers of people traditionally underrepresented in the biomedical and behavioral research workforce. Such steps include providing relatively under-resourced institutions with opportunities to provide mentorship and resources to undergraduate students interested in pursuing a biomedical research career. Other efforts include building a nationwide consortium that will connect students, postdoctoral fellows, and faculty to experienced mentors, and improving upon data collection and evaluation efforts to determine the most effective approaches. A total of $767 million is estimated in FY 2015 to support training 15,715 of the next generation of research scientists through the Ruth L. Kirschstein National Research Service Awards program. The Budget proposes a two percent stipend increase for predoctoral and postdoctoral trainees in FY 2015.

**Graduate Medical Education**

Targeted Support for GME

The President's budget includes $530 million in mandatory funding for a new program, Targeted Support for Graduate Medical Education. This new competitive grant program would fund teaching hospitals, children's hospitals, and community-based consortia of teaching hospitals and/or other health care entities to expand residency training, with a focus on ambulatory and preventive care.

The new program would incorporate two existing programs, the Children's Hospital Graduate Medical Education program and the Teaching Health Center Graduate Medical Education program. Current awardees in those programs would be eligible to compete for funding through the Targeted Support's competitive grant program, with a minimum of $100 million set-aside specifically for children's hospitals in FY 2015. The budget proposes to continue mandatory funding for the new Targeted Support for Graduate Medical Education program annually in FYs 2015-2024, for a total investment of $5.2 billion.

Better Align Graduate Medical Education Payments with Patient Care Costs

The Medicare Payment Advisory Commission (MEDPAC) has found that existing Medicare add-on payments to teaching hospitals for the indirect costs of medical education significantly exceed the actual added patient care costs that hospitals incur. The proposed budget would reduce these payments by 10 percent, beginning in 2015. In addition, the Secretary of Health and Human Services would be granted the authority to set standards for teaching hospitals receiving Graduate Medical Education payments to encourage training of primary care residents and emphasize skills that promote "high-quality and high-value health care." [$14.6 billion in savings over 10 years]