

# Issue Brief

FEDERAL ISSUE BRIEF • March 12, 2019

## Brief Summary of President's FY 2020 Budget

President Trump's fiscal year 2020 budget has been released. The following is a brief and succinct summary of items pertaining to Medicare. For further information, and details please refer to the [Issue Brief](#) issued on this subject.

In the past, most presidential budgets have been deemed to be "dead on arrival" by Congress. That's because most of legislative issues were not in sync with congressional thoughts.

### OVERALL BUDGET

The total HHS budget proposes \$87.1 billion in discretionary budget authority and \$1.2 trillion in mandatory funding.

### CMS BUDGET

The Centers for Medicare & Medicaid Services funds Medicare, Medicaid the Children's Health Insurance Program, the Center for Medicare & Medicaid Innovation, other health insurance programs, program integrity efforts, and operating costs.

The CMS FY 2020 budget estimate is \$1.2 trillion in mandatory and discretionary outlays, a net increase of \$60.5 billion above FY 2019. Ninety-six percent is allocated to Medicare and Medicaid.

The Medicare portion of the budget is separated into legislative and administrative sections.

### 2020 LEGISLATIVE PROPOSALS

"The FY 2020 budget includes targeted Medicare proposals designed to improve value-based systems of care, exercise fiscal integrity, promote competition, reduce provider burdens, improve the appeals system and address high drug prices. Together, this legislative package is expected to net savings to the Medicare Trust Funds of \$811 billion throughout 10 years. This package extends the solvency of the Hospital Insurance Trust Fund by approximately eight years, in part by ensuring Medicare payments are directly related to its health care financing role, financing certain payments to hospitals for graduate medical education and uncompensated care outside the Trust Fund and slowing their growth rate."

### Reprioritize Primary and Preventive Care in Medicare

Beginning in FY 2021, this proposal creates a risk-adjusted monthly Medicare Priority Care payment for providers who are eligible to bill for evaluation and management services, and who provide ongoing primary care to Medicare beneficiaries. The payment would be funded by a 5 percent annual reduction to the valuations of all non-E/M services and procedures under the Physician Fee Schedule. [No budget impact]

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### **Expand Basis for Beneficiary Assignment for Accountable Care Organizations**

Effective calendar year 2020, this proposal would allow the secretary to base beneficiary assignment to an Accountable Care Organization on a broader set of primary care providers. [\$80 million in savings throughout 10 years]

### **Create a Consolidated Hospital Quality Payment Program**

This proposal would establish a new consolidated hospital quality payment program that combines four existing programs. [No budget impact]

### **Reform Physician Self-Referral Law**

Effective CY 2021, HHS will establish a new exception to the physician self-referral law for arrangements that arise due to participation in advanced Alternative Payment Models. [Budget impact not available]

### **Implement Value-Based Purchasing Program for Outpatient Hospitals and Ambulatory Surgical Centers**

Beginning in CY 2021, CMS will implement a value-based purchasing program for hospital outpatient departments and ambulatory surgical centers. [No budget impact]

### **Redesign Outpatient Hospital and Ambulatory Surgical Center Payment Systems to Make Risk-Adjusted Payments**

This proposal will risk-adjust payments to these facilities based on the severity of patients' diagnoses. [No budget impact]

### **Modify Payments to Hospitals for Uncompensated Care**

Effective FY 2021, this proposal establishes a new process to distribute uncompensated care payments to hospitals

based on share of charity care and non-Medicare bad debt, as reported on Medicare cost reports. [\$182.5 billion in Medicare savings throughout 10 years; this proposal would increase spending from general revenues by \$84.5 billion throughout 10 years for a net savings to the federal government of \$98.0 billion throughout 10 years]

This would be major item if adopted by Congress.

### **Pay On-Campus Hospital Outpatient Departments at the Physician Office Rate for Certain Services**

Effective CY 2020, this proposal makes site-neutral payments between on-campus hospital outpatient departments and physician offices. [\$131.4 billion in savings throughout 10 years]

### **Address Excessive Payment for Post-Acute Care Providers by Establishing a Unified Payment System Based on Patients' Clinical Needs Rather than Site of Care**

Under this proposal, skilled nursing facilities, home health agencies and inpatient rehabilitation facilities will receive a lower annual Medicare payment update from FY 2020 to FY 2024, and beginning in FY 2025, a unified post-acute care payment system would span all four post-acute care settings, with payments based on episodes of care and patient characteristics rather than the site of service. [\$101.2 billion in savings throughout 10 years]

### **Pay Site-Neutral Rates to All Hospital-Owned Physician Offices Located Off-Campus**

This proposal requires all off-campus hospital outpatient departments to be paid under the Physician Fee Schedule, effective CY 2020. [\$28.7 billion in savings throughout 10 years]



### **Authorize Long-Term Care Hospital Site-Neutral Exceptions Criteria**

Effective FY 2020, this proposal raises the ICU stay threshold from three days to eight days to more accurately identify the chronically ill patients who typically receive the specialized care LTCHs provide. [Savings of \$10.0 billion throughout 10 years]

### **Reduce Medicare Coverage of Bad Debts**

Effective FY 2020, this proposal reduces Medicare reimbursement of bad debt from 65 percent to 25 percent throughout three years. Rural hospitals with fewer than 50 beds, Critical Access Hospitals, Rural Health Clinics and Federally Qualified Health Centers are exempt from the reduction. [\$38.5 billion in savings throughout 10 years]

### **Reform Graduate Medical Education Payments**

Funding for Graduate Medical Education comes from multiple fragmented funding streams, and HHS' GME financing system does not target training to the types of physicians needed in the U.S. The Budget includes a proposal to consolidate and better target federal spending for GME.

## **2020 ADMINISTRATIVE PROPOSALS**

### **Encourage Adoption of High-Value Innovative Technologies through Bundled Payment Demonstrations**

“Under this proposal, the Center for Medicare & Medicaid Innovation would use existing authorities to identify bundled payment arrangements for certain high-value devices. For example, these devices include technologies that could significantly reduce time and costs in a post-acute care setting, but providers otherwise consider them impractical solely in the scope of Medicare payments

to facilities. The proposal would require the device manufacturer to bear some or all of the risk.” [No budget impact]

## **LOWERING THE COST OF PRESCRIPTION DRUGS**

The budget places a considerable effort on the issue of lowering the cost of prescription drugs. Legislative proposals include the following. [Some items would affect hospitals.]

- *Reduce Wholesale Acquisition Cost-Based Payments* – Beginning in 2020, this proposal reduces the payment rate for single-source drugs, biologics and biosimilars from 106 percent to 103 percent of WAC to reduce excessive payments.
- *Modify Payment for Drugs Hospitals Purchased through the 340B Discount Program and Require a Minimum Level of Charity Care for Hospitals to Receive a Payment Adjustment Related to Uncompensated Care* – A CY 2018 Medicare regulation reduced outpatient hospital payment for 340B drugs from ASP plus 6 percent to ASP minus 22.5 percent, a conservative calculation of the average discount 340B hospitals receive. This already has lowered out-of-pocket costs for beneficiaries who use these drugs and pay the 20 percent copayment. However, the law requires the savings be redistributed across Medicare payments to outpatient hospitals in a budget-neutral manner. Beginning in CY 2020, this proposal allows CMS to apply savings from these lower payments for drugs purchased under the 340B program in a non-budget-neutral way. Hospitals providing at least 1 percent of patient care costs in uncompensated care will receive redistributed savings based on the percentage of all uncompensated care they provide compared with other outpatient hospitals. Hospitals not meeting that threshold will be

ineligible for the redistribution, and the savings from their payment reduction will be returned to the Medicare Trust Funds. [No budget impact]

## Medicaid

“The FY 2020 budget provides additional flexibility and reduces administrative burden for states; puts Medicaid on a path to fiscal stability by restructuring Medicaid financing and reducing waste; and refocuses Medicaid on populations the program was originally intended to serve — low-income families, the elderly, people with disabilities, children and pregnant women. In total, the budget includes net savings to Medicaid of \$1,482.7 billion throughout 10 years. Of this total, the budget includes \$1,385.5 billion in savings to Medicaid related to the Empowering States and Consumers to Reform Health Care proposal.”

## FINAL THOUGHTS

Many of the items in this budget, especially the legislative items such as reducing bad debt payments and GME reform, are not new. In the past, we have noted that many current nonadopted items become adopted. It is hard to predict what may happen this year with a Democratic House and Republican Senate.

Please pay careful attention to the changes CMS can make via administrative rulemaking.

These include site-neutral payments, changes in quality reporting and bundling. Also, pay attention to the proposed changes in uncompensated payments.

The budget is not an easy document to follow. It also is difficult in many places to understand the numbers being presented. They sometimes disagree.

This is an abbreviated analysis. View the full analysis [here](#).

*Analysis provided for MHA  
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