FISCAL YEAR 2014

BUDGET

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facilities (SNFs), long-term care hospitals (LTCHs), inpatient rehabilitation facilities (IRFs) and home health agencies. Over the years, MedPAC has noted that expenditures for post-acute care have increased dramatically, and payments are in excess of the costs of providing high-quality and efficient care, placing a drain on Medicare. Recognizing the importance of these services, the Administration supports policies that will encourage efficient utilization of services and improve the quality of care. The Budget's proposals include adjusting payment updates for certain post-acute care providers and equalizing payments for certain conditions commonly treated in IRFs and SNFs, which will save about $81 billion over 10 years. The Budget encourages appropriate use of inpatient rehabilitation hospitals and adjusts SNF payments to reduce unnecessary hospital readmissions, saving almost $5 billion over 10 years. Also, the Budget proposes to restructure payments for post-acute care services using a bundled payment approach, saving about $8 billion over 10 years.

Improve Payment Accuracy for Medicare Advantage. Medicare Advantage plans receive a minimum statutory adjustment to their payment to account for differences in coding of medical conditions between Medicare Advantage and fee-for-service providers. The Government Accountability Office (GAO) has identified this minimum adjustment as inadequate to account for overpayments resulting from this difference. Therefore, the Budget proposes to increase the minimum coding intensity adjustment beginning in 2015. This proposal will save approximately $15 billion over 10 years. In addition, MedPAC has identified potential changes to the way employer group waiver plans are paid. The Budget proposes to align employer group waiver plan payments with the average individual Medicare Advantage plan bid in each Medicare Advantage payment area beginning in 2015. This proposal is estimated to save $4 billion over 10 years.

Align Medicare Drug Payment Policies with Medicaid Policies for Low-Income Beneficiaries. The Department of Health and Human Services Office of Inspector General has found substantial differences in rebate amounts and net prices paid for brand name drugs under Medicare and Medicaid, with Medicare receiving significantly lower rebates and paying higher prices than Medicaid—even for Medicaid beneficiaries also enrolled in Medicare. Moreover, Medicare per capita spending in Part D is expected to grow significantly faster over the next 10 years than spending in Parts A or B under current law. This proposal would allow Medicare to benefit from the same rebates that Medicaid receives for brand name and generic drugs provided to beneficiaries who receive the Part D Low-Income Subsidy beginning in 2014. This option is estimated to save $123 billion over 10 years.

Accelerate Manufacturer Drug Rebates to Provide Relief to Medicare Beneficiaries in the Coverage Gap. The Affordable Care Act closes the coverage gap in Part D by 2020 through a combination of manufacturer discounts and Federal subsidies. Since the law's enactment, over six million Medicare beneficiaries have saved on their prescription drug costs. The Budget proposes to increase manufacturer discounts for brand name drugs from 50 to 75 percent in 2015, effectively closing the coverage gap for brand name drugs in 2015, five years sooner than under current law. This proposal is estimated to save approximately $11 billion over 10 years.

Increase Income-Related Premiums Under Medicare Parts B and D. Under Medicare Parts B and D, higher income beneficiaries pay higher premiums. Beginning in 2017, the Budget proposes to restructure income-related premiums under Parts B and D by increasing the lowest income-related premium five percentage points, from 35 percent to 40 percent and also increasing other income brackets until capping the highest tier at 90 percent. The proposal maintains the income thresholds associated with income-related premiums until 25 percent of beneficiaries under Parts B and D are subject to these premiums. This will help improve the financial stability of the Medicare program by reducing the Federal subsidy of Medicare costs for those beneficiaries who can most afford them. This proposal will save approximately $50 billion over 10 years.

Promote Targeted, Shared Responsibility for New Beneficiaries. The Budget proposes three targeted policies to promote appropriate use of health care for new enrollees in Medicare starting in 2017. First, to strengthen program financing and encourage beneficiaries to seek high-value health care services, the Budget proposes to apply a $25 increase in the Part B deductible in 2017, 2019, and 2021 for new beneficiaries. Second, Medicare beneficiaries currently do not make co-payments for Medicare home health services. This proposal would create a home health copayment of $100 per home health episode for new beneficiaries, applicable for episodes with five or more visits not preceded by a hospital or other inpatient post-acute care stay. This proposal is consistent with a MedPAC recommendation to establish a per episode copayment. Third, to encourage more efficient health care choices, the Budget proposes a Part B premium surcharge equivalent to about 15 percent of the average Medigap premium for beneficiaries that purchase Medigap policies with particularly low cost-sharing requirements.

Medigap policies sold by private insurance companies cover most, or all, of the cost-sharing Medicare requires. This protection, however, gives individuals less incentive to consider the costs of health care services and thus raises Medicare costs and Part B premiums. Together these proposals will save approximately $7 billion over 10 years.

Strengthen the Independent Payment Advisory Board (IPAB) to Reduce Long-Term Drivers of Medicare Cost Growth. IPAB has been highlighted by economists and health policy experts as a key contributor to Medicare's long term solvency, and this proposal would lower the target rate from the GDP per capita growth rate plus one percentage point to plus 0.5 percentage point.

Encourage the Use of Generic Drugs By Low Income Beneficiaries. Medicare provides Part D cost-sharing subsidies for beneficiaries with incomes below 150 percent of the Federal poverty level. Evidence has shown that low income subsidy (LIS) individuals have higher rates of brand name drug utilization than other beneficiaries. To increase generic utilization by LIS beneficiaries, the Budget proposes in most instances to increase specified copayments for brand drugs from their current law level, while lowering specified copayments for generic drugs by more than 15 percent. Beneficiaries would continue to be charged the current law amounts for brand drugs if a generic substitute is not appropriate or available. This proposal will save approximately $7 billion over 10 years.

Cut Waste, Fraud, and Abuse in Medicare and Medicaid. In this fiscal environment, we cannot tolerate waste, fraud, and abuse in Medicare, Medicaid, and the Children's Health Insurance Program (CHIP), or any Government program. That is why the Administration has made targeting waste, fraud, and abuse a priority. The Administration is aggressively implementing new tools for fraud prevention included in the Affordable Care Act, as well as the fraud prevention system, a predictive analytic model similar to those used by private sector experts. In addition, the Budget proposes a series of policies to build on these efforts that will save nearly $4.1 billion over the next 10 years. Specifically, the Budget proposes new initiatives to reduce improper payments in Medicare; require prior authorization for advanced imaging; direct States to track high prescribers and utilizers of prescription drugs in Medicaid to identify aberrant billing and prescribing patterns; expand authorities to investigate and prosecute allegations of abuse or neglect of Medicaid beneficiaries in additional health care settings; and affirm Medicaid's position as a payer of last resort by removing exceptions to the requirement that State Medicaid agencies reject medical claims when another entity is legally liable to pay the claim. In addition, the Budget would alleviate State program integrity reporting requirements by consolidating redundant error rate measurement programs to create a streamlined audit program with meaningful outcomes, while maintaining the Federal and State Government's ability to identify and address improper Medicaid payments.