

## President Obama's Federal Budget FY 2009-10 Proposal Health Care Budget

Prepared by Ansony Kim

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On February 26, 2009, President Obama released a \$3.6 trillion budget proposal for federal fiscal year 2010. Although the proposal lacks a lot of specific details, it serves as a blueprint for the Obama administration's agenda across several key issues. The budget blueprint presses aggressively for progress on the domestic agenda Obama outlined during his presidential campaign, which includes a large focus on financing new investments in health care reform, energy independence from oil and gas, and an increased commitment to education. Obama plans to release a more complete budget proposal containing program-by-program funding in April 2009.

The budget plan projects a federal deficit of \$1.2 trillion in FFY 2010, 8.3% of GDP, a value we have not seen since World War II. However, the Administration aims to cut the deficit in half by the end of the president's first term, dropping the deficit to \$533 billion by 2013. To get there, President Obama proposes to cut spending and raise taxes, responsibly redeploy our military forces from Iraq to Afghanistan, make government more efficient, close tax loopholes, eliminate subsidies for special interests, and permit the 2001 and 2003 tax breaks for the wealthy to expire in 2011.

The budget proposal did not present any details on a mechanism for health care reform and coverage expansion, but it did make a financial commitment to a comprehensive overhaul of the U.S. health care system in the near future. To help finance reform, the President has outlined a short list of revenue and cost savings proposals to create a health care reserve fund of \$634 billion over 10 years.

Approximately half of the reserve fund will be financed by rebalancing the tax code so that the wealthiest pay more. Revenue from higher taxes on the wealthy is projected to generate \$318 billion over 10 years. As promised, President Obama would allow the 2001 and 2003 tax breaks for the wealthy to expire. This would increase the tax rate from 33 percent to 36 percent for individuals earning more than \$200,000 and married couples earning more than \$250,000. The top tax rate (\$370,000 and above) would increase from 35 percent to 39.6 percent. On top of allowing these tax breaks to expire, the proposal would implement new taxes on families in the highest income brackets by raising their investment income tax to 20 percent from 15 percent and limit the deduction rates to 28% for itemized tax deductions on mortgage interest, state and local taxes and charitable contributions.

In order to finance health care reform, the Administration also focused on specific health care savings in three areas: 1) promoting efficiency and accountability, 2) aligning incentives toward quality, and 3) encouraging shared responsibility. Together, the total projected savings would finance approximately \$316 billion over 10 years, the second half of the \$634 billion reserve fund.



### **Health Care Related Savings:**

#### Payment Reform to Private Medicare Plans: \$177 B over 10 years

The Administration aims to reduce fraud, waste and abuse in order to strengthen the integrity of the program. Under the proposal, Medicare would reduce overpayments to private insurance companies that run managed-care programs known as Medicare Advantage. These plans enroll one out of five senior citizens and provide more benefits than available under traditional Medicare. However, due to the current payment formulas of the Medicare system, the government pays the private plans 14 percent more on average than it would pay for traditional fee-for-service coverage. In order to increase savings, the Administration proposes to implement a new competitive bidding model that would pay private health plans based on the average of bids in different geographic areas.

#### Reducing Drug Prices: \$29 B over 10 years

The proposal would bring down the drug costs of Medicaid by increasing the drug rebate that pharmaceutical companies pay for brand-name drugs from 15.1 percent to 22.1 percent of the Average Manufacturer Price.

In addition, the proposal would accelerate access to generic drugs by prohibiting anticompetitive agreements and collusion between brand-name pharmaceutical companies and generic companies to delay market entry of generic versions of their products. Also, brand-name manufacturers would be prohibited from reformulating existing products into new products to restart the exclusivity process.

#### Improving Care after Hospitalizations and Reducing Readmission Rates: \$26 B over 10 years

Hospitals would receive fixed payments that cover not just the hospitalization, but also 30 days of post-acute follow-up care. Hospitals with high readmission rates will be paid less if more patients are re-admitted within the same 30-day period. This combination of incentives and penalties should encourage better care and result in fewer readmissions to increase overall quality and savings.

#### Expanding the Hospital Quality Improvement Program: \$12 B over 10 years

Implementing a pay for performance model, a portion of Medicare payments for acute in-patient hospital services will be based on the hospital's performance on specific quality measures.

#### Increase Medicare Prescription Drug Premiums: \$8 B over 10 years

Following the same income-based subsidy policy for physician and outpatient services (Medicare Part B), higher-income Medicare beneficiaries would pay higher premiums than lower-income seniors for Medicare Part D prescription drug coverage.

President Obama's first budget proposal begins laying the groundwork for long-term growth and a bold commitment to improving our health care system. Although the proposal does not provide any clear path to health care reform in 2009, it does provide a framework of principles for Congress and the Administration to immediately work off of.



Resources:

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The White House. "A New Era of Responsibility: Renewing America's Promise." Office of Management and Budget.