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# PULSE ARTICLE SERIES

REAL-TIME PERSPECTIVES FOR  
THE HEALTHCARE INDUSTRY

## The President's 2017 Budget: Key proposals affecting providers

In February, President Obama sent to Congress his FY 2017 budget request that offers to save \$375 billion over the next decade with targeted changes to Medicare, Medicaid, and other health programs. While many may see the final budget as "dead on arrival," the proposal serves as a starting point for appropriations negotiations.

The fiscal blueprint supports Obama's aggressive healthcare reform agenda of shifting the nation's healthcare delivery system from volume to value. The budget outlines measures, such as alternative payment models (APMs), designed to drive the industry further along the path to value that incentivizes quality and efficiency and slows the growth of costs.

While most providers are in a flux state somewhere between fee-for-service and value-based care delivery, moving to a patient-centered model of care and reimbursement is good for patients and good for providers. What's more, increased quality and reduced costs in care delivery mean more sustainable programs.

The bundled payments initiative is part of the alternative payment model moving Medicare fee-for-services to a payment model based on quality. Bundling payments for services that patients receive across a single episode of care – such as a hip replacement – puts the focus on the patient and encourages doctors, hospitals, and other providers to better coordinate care for patients, both as inpatients and after discharge.

The 2017 budget implements bundled payment methodology for post-acute care providers including long-term care hospitals, inpatient rehabilitation facilities, skilled nursing facilities, and home health providers. Payments will be bundled for at least 50 percent of the total payments beginning in 2021.

Integral to population health and coordinated care programs, bundled payments are intended to reduce needless tests and avoidable treatments because there is no incentive to do more; the incentive is to do only what the patients needs. They can be useful as a stand-alone solution or in combination with other risk-sharing initiatives.

The shift to bundled payments is only going to gain momentum. Hospitals and other care providers need to start preparing now for this payment model by adding bundled payments to their list of 'must do' strategies.

Under the new budget, hospitals that furnish a sufficient proportion of their services through eligible alternative payment models will receive a bonus payment beginning in 2022. Each year, hospitals that qualify for this bonus will receive an upward adjustment to their base payments.

Bonuses will provide incentives for providers to change care delivery practices and to adapt progressive strategies for care coordination. It's going to be important, however, for the APMs to promote risk-sharing and avoid policies that encourage *risk-shifting*.

The president's budget also proposes to boost access to primary care providers. The Affordable Care Act implemented a temporary 10 percent primary care incentive payment program, and the proposed budget would allow HHS to introduce additional primary care payments into the Medicare physician fee schedule. Exempt from beneficiary cost-sharing, the new per-beneficiary payments will equal the average per-beneficiary payment under the expired incentive program.

While most of the emphasis for providers in the 2017 budget is on transitioning the care delivery system to value, it's important not to overlook the reductions to prospective payment system (PPS) add-ons the administration is suggesting. For one, the budget proposes \$33 billion in savings by reducing Medicare's coverage of bad debts to hospitals and other facilities.

Medicare currently pays hospitals and other facilities 65 percent of bad debts resulting from Medicare beneficiaries' unpaid amounts. The budget would reduce this payment to 25 percent over three years. According to the Department of Health and Human Services (HHS), this proposed reduction more closely align Medicare policy with private payers who do not typically reimburse for bad debt.<sup>1</sup>

Another significant cut outlined in the budget is in Medicare graduate medical education (GME) payments to teaching hospitals with a 10 percent reduction in the indirect medical education (IME) adjustment. Existing Medicare add-on payments to teaching hospitals would be reduced by approximately \$16.3 billion over 10 years beginning in 2017.

The budget also reduces the current 101 percent Medicare rate for Critical Access Hospitals (CAH) to 100 percent. It also prohibits hospitals within 10 miles of another hospital from being designated as a CAH.

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1. "FY2016 Budget in Brief - CMS Medicare." <http://www.hhs.gov/about/budget/budget-in-brief/cms/medicare>

These cuts, if passed, will be hard pills to swallow. Hospitals will have to operate more efficiently and capture every dollar possible to make up for these cuts.

Also contained in the budget are a number of Medicare program integrity proposals that fight fraud, waste, abuse, and improper payments in the federal health programs. The recommendations specific to providers include:

- Provider fee assessment for incomplete documentation;
- Civil monetary penalty for non-updated enrollment records;
- Application fee for individual providers and suppliers; and
- Modified reimbursement of Part B Drugs administered in the physician office and hospital outpatient settings.

Hospital and health systems are facing epoch-making changes with increasing pace. It's clear that providers are being held accountable for performance, and reimbursements are going to get tighter. These pressures will continue to require operational efficiencies and care collaboration. A strategy to build, manage, and protect your future has never been more important.

**SOURCES:** <https://www.govinfo.gov/features/featured-content/Budget-FY2017>, <http://www.hhs.gov/about/budget/fy2017/budget-in-brief/cms/medicare/index.html>, <https://www.whitehouse.gov/omb/budget>. <http://www.hhs.gov/sites/default/files/fy2017-budget-in-brief.pdf>