

President's 2014 Budget Proposal for the Department of Health and Human Services (HHS)

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The Obama Administration released its proposed Fiscal Year [2014 budget](#) on April 10th. The 244-page document outlines the President's spending priorities for the coming fiscal year. The FY 2014 Budget for the Department of Health and Human Services (HHS) totals \$80.1 billion in discretionary funding for FY 2014, \$3.9 billion above the 2012 enacted level.

Included in the President's Budget are significant payment reductions and other forms of savings to the Medicare program. Proposed payment changes for Medicare providers would save an estimated \$306 billion from 2014-2023. Structural changes to Medicare, including an increase in premiums for wealthier beneficiaries, would provide \$67 billion in savings over the same 10-year period. Also of note, the budget proposal includes over \$800 million for the Centers for Medicare & Medicaid Services (CMS) to support insurance exchange operations in 2014 under the Affordable Care Act (ACA). The budget also includes \$19 billion in Medicaid savings and over \$14 billion in pharmaceutical savings by 2023. Overall, proposals achieve an estimated \$400 billion in total health savings from 2014 through 2023.

This legislative update is intended to provide an overview of key elements of the proposed FY 2014 HHS budget.

Affordable Care Act Implementation

The FY 2014 Budget requests \$634 million to employ an additional 280 full-time CMS employees to "oversee expanded responsibilities resulting from the Affordable Care Act (ACA) and other legislation passed in recent years." The additional employees would also support a new wave of Medicare beneficiaries and administer Medicaid and the Children's Health Insurance Program (CHIP). In addition the Budget requests \$350 million in additional funding for approximately 1,000 new employees at the IRS to oversee implementation of the ACA.

The FY 2014 Budget also includes:

- \$803.5 million for CMS activities in 2014 to support ACA insurance exchange operations, scheduled to begin enrollment in October of 2013
- \$3.8 billion to support 22 million patients receiving community health center services. The ACA already provides the Health Center program with a total of \$9.5 billion through 2015
- A delay in reductions of the Medicaid Disproportionate Share Hospital (DSH) payments scheduled for 2014, which would instead begin in 2015.

Medicare and Medicaid

The FY 2014 Budget estimate for CMS is \$854.3 billion in mandatory and discretionary outlays, an increase of \$60.2 billion above the FY 2013 request. Specifically, the Budget includes \$22.1 billion in savings over 10 years in the Medicaid program and savings of \$371 billion over 10 years through changes to Medicare.

The biggest savings from Medicare, \$50 billion, would come from additional means-testing Part B and Part D premiums for wealthier recipients beginning in 2017. The Budget would also modify Part B premiums for new enrollees, making beneficiaries pay 35 percent of program costs, up from 25 percent. It would introduce an approximate 15 percent surcharge for new beneficiaries in Medigap plans for beneficiaries beginning in 2017 to achieve \$3.3 billion in savings by 2023. Notably, the proposal would not increase the eligibility age for Medicare.

The proposed Budget would also save \$8.8 billion over 10 years, by implementing targeted adjustments in Medicaid prescription drug financing through clarifying the definition of brand drugs, excluding authorized generic drugs from average manufacturer price calculations for determining manufacturer rebate obligations for brand drugs, and making a technical correction to the ACA alternative rebate for new drug calculations.

Additional changes to Medicaid and Medicare include:

- Stabilizing physician payment rates and eventually replacing the sustainable growth rate (SGR) through reforms implementing scalable accountable payment models

- Instituting mandatory drug rebates in Medicare Part D for low-income seniors, which would save an estimated \$140 billion
- Closing the donut hole in the Part D benefit by 2015 for brand drugs by increasing discounts provided by the pharmaceutical industry
- Requiring new beneficiaries, beginning in 2017, to pay copays on certain home health services and skilled nursing facilities (SNFs)
- Aligning Medicare payments for drugs with Medicaid rebate policies for low-income beneficiaries
- Using the Independent Payment Advisory Board (IPAB), created under the ACA, to reduce long-term drivers of Medicare cost growth
- Reducing payment errors, preventing fraud, and enhancing criminal enforcement in Medicare, Medicaid, and CHIP.

National Institutes of Health

The FY 2014 Budget requests \$31.3 billion for the National Institutes of Health (NIH), an increase of \$471 million, 1.5 percent, over the FY 2012 funding level. The increase reflects the Administration's desire to prioritize investments in biomedical and behavioral science to advance medicine and spur economic growth. In FY 2014, 83 percent of funding appropriated to NIH will flow to the extramural community, supporting over 300,000 research positions at more than 2,500 organizations, while 11 percent of the budget will support intramural programs and basic research and training activities.

Research priorities for NIH in FY 2014 include:

- \$100 million to pursue the Brain Research through Advancing Innovative Neurotechnologies (BRAIN) Initiative, aimed at helping researchers explore new ways to treat, cure, and prevent brain disorders
- \$50 million to continue the work of the newly established National Center for Advancing Translational Sciences (NCATS), which seeks to re-engineer scientific discoveries into new diagnostics and therapeutics
- \$16.9 billion, or 54 percent of its total budget, to finance 36,510 competitive, peer-reviewed research project grants
- The NIH budget also prioritizes funding for recruiting and retaining diverse scientific talent and creativity, HIV/AIDS research, and Science, Technology, Engineering, and Mathematics (STEM) education.

Food and Drug Administration

The FY 2014 Budget provides \$4.7 billion in total program resources for the Food and Drug Administration (FDA), which is \$821 million above the 2012 enacted level. It includes \$10 million in new resources to improve the safety of food and medical product imports to the United States through a greater FDA presence in foreign countries. The proposal uses \$16 million to implement the *Food Safety Modernization Act* while cutting \$15 million in budget authority for human drug, biologics and medical device programs. The Budget also estimates that banning pay-for-delay settlements would save Medicare \$8.6 billion over 10 years and reducing exclusivity for brand-name biologics to seven years from 12 years would save \$3.1 billion in Medicare over 10 years.

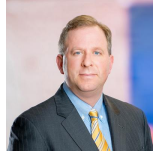
Other Budget Highlights

In addition to the items highlighted above, the FY 2014 Budget proposal includes:

- \$11.3 billion for the Centers for Disease Control and Prevention (CDC) and the Agency for Toxic Substances and Disease Registry (ATSDR)
- \$5.7 billion for the Indian Health Service (IHS)
- \$3.6 billion for the Substance Abuse and Mental Health Service Administration (SAMSHA)
- \$9 billion for the Health Resources and Services Administration (HRSA), an increase of \$841 million above FY 2012 levels
- \$434 million for the Agency for Healthcare Research and Quality (AHRQ)
- \$51.9 billion for the Administration for Children and Families (ACF)
- \$2.1 billion for the Administration for Community Living (ACL)
- \$25 million to the Office of the National Coordinator for Health IT (ONC) to support advances in electronic health records (EHRs).

Authors

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Alex Hecht is a trusted attorney and policy strategist with over 20 years of experience advising clients across a broad range of industries on how to navigate complex policy environments. His strategic insight and hands-on experience in both legislative and regulatory arenas empower clients to advance their priorities with clarity and confidence in an evolving policy landscape.

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