PUBLICATION

President Trump's Budget: Key Takeaways for Health Care

Authors: Sheila P. Burke
March 15, 2019

President Trump's fiscal year 2020 (FY20) budget proposal for the Department of Health and Human Services (HHS) reflects the Trump Administration's priorities to repeal and replace the Affordable Care Act (ACA), implement wide-ranging policies to address drug pricing, enact substantial reforms to Medicare and Medicaid, and significantly reduce federal spending for domestic health programs.

Overall, the FY20 budget requests $87.1 billion in discretionary funding for HHS, an 11.9 percent decrease from the FY19 estimated level of $101.7 billion. The budget also estimates $1.25 trillion in mandatory savings over FY20–29 from various health programs, including through hundreds of billions in spending reductions to Medicare and Medicaid.

The budget proposal serves as a messaging document to outline the Trump Administration's key priorities for health care. Given the divided government, Congress is unlikely to enact the major policies within the budget as proposed. With that in mind, here are key takeaways for health care within the President's FY20 budget proposal.

Table-Setting Proposals

These proposals are unlikely to advance in legislative form given a divided Congress, but they may play a significant role leading up to the 2020 presidential campaigns.

- **ACA Repeal and Replace:** The President's FY20 budget supports enacting legislation modeled after the 2017 Graham-Cassidy-Heller-Johnson bill to repeal the ACA's Medicaid expansion and insurance exchange subsidies and institute market-based health care grants. In addition, the Administration supports restructuring the Medicaid program by instituting per capita caps or block grants beginning in FY21. To restrain long-term spending growth, the Administration calls for aligning the growth rate of the market-based health care block grants and the Medicaid per capita cap and block grant programs with the Consumer Price Index for Urban Consumers (CPI-U). (-$658.6 billion in estimated net spending reductions over FY20–29).
- **Flexibility on Medicaid Requirements:** The budget calls for mandating uniform Medicaid work requirements nationwide and giving states more flexibility on other Medicaid program requirements, including enabling states to consider an individual's savings when assessing eligibility and allowing states to increase copays for non-emergency uses of emergency rooms. (-$143 billion in estimated net spending reductions over FY20–29).
- **Medicare Spending Reductions:** The budget proposes significant legislative changes in long-term Medicare spending through modifying payments to hospitals for uncompensated care; instituting site-neutral payments that would decrease payments for hospital outpatient care, post-acute care, and to hospital-owned practices not located on hospital campuses; reducing Medicare coverage of bad debts; and consolidating and block-granting payments for graduate medical education. (-$457 billion in estimated net spending reductions over FY20–29).

Key Proposals to Watch

These proposals may advance through regulation or gain consideration in Congress this year.

- **Drug Pricing and Payment:** The budget proposes a wide range of Medicare and Medicaid drug pricing policy reforms modeled after President Trump's Drug Pricing Blueprint, including the policies highlighted below (-$69 billion in estimated net spending reductions over FY20–29).
  - Excluding manufacturer discounts from the calculation of beneficiary out-of-pocket costs in the Medicare Part D coverage gap
  - Removing the three-year payment protection of ASP+6% for certain new drugs provided in outpatient hospitals
  - Reducing payment for innovator drugs from ASP+6% to ASP-33% if a manufacturer takes "anti-competitive" actions to extend their patents and delay lower-cost competition
  - Establishing a beneficiary out-of-pocket maximum in Medicare Part D
  - Clarifying the Food and Drug Administration's (FDA) approach in determining whether a new drug is a new chemical entity for an additional five years of exclusivity
  - Providing broad regulatory authority for the 340B Drug Pricing Program to set enforceable standards of program participation and require all covered entities to report on use of program savings
  - Instituting new demonstration authority for states to test innovative approaches for Medicaid prescription drug coverage, allowing states to test a closed formulary and negotiate prices directly with manufacturers
- **ACA Regulations:** The budget includes regulatory changes to the ACA's insurance exchanges, including providing an appropriation for Cost-Sharing Reductions (CSRs) for FY20, reducing the grace period from 90 to 30 days for exchange premiums, introducing a minimum required contribution for premium tax credits, and expanding access to Health Savings Accounts (HSAs). (+$28.5 billion in estimated net spending increases over FY20–29).
- **E-Cigarette Fees:** The budget proposes an annual user fee on e-cigarette manufacturers expected to result in $100 million in new revenues to help fund FDA regulation of their products. Cigarette companies already pay such a fee.
- **Medicaid Eligibility Redeterminations:** The budget commits to using regulatory authority to allow states the option to conduct more frequent eligibility redeterminations for MAGI populations. (-$45.6 billion in estimated net spending reductions over FY20–29).

Notable Proposed Spending Increases and Reductions

These proposals represent noteworthy spending increases or cuts proposed by the Administration. Congress may accept some of these proposals and will likely make significant modifications to others before finalizing appropriations for FY20.

- **Opioids:** The budget maintains federal funding to prioritize opioid diagnosis, prevention, and treatment, including maintaining $1.5 billion for State Opioid Response grants, $1 billion in the National Institutes of Health (NIH), $221 million to expand the behavioral health workforce, and $476 million for the Centers for Disease Control and Prevention (CDC) to continue current activities.
- **HIV/AIDS:** The budget includes $291 million for President Trump's initiative to end HIV transmission in the U.S., including $140 million for the CDC to improve diagnosis and testing for HIV and an additional $120 million for the Ryan White HIV/AIDS care program. However, the budget includes

proposed cuts to other factors considered important in combating HIV/AIDS, including housing, social services, and international prevention efforts.

- **NIH:** The budget calls for $4.5 billion in spending reductions to the NIH, from $39 billion at the FY19 estimated level to $34.4 billion, spread across all of the agency's two dozen institutes.
- **FDA:** The budget requests $6.1 billion for the FDA, a $643 million increase over FY19. The budget increases user fees by $281 million and budget authority by $362 million, investing in modernizing food safety, strengthening foodborne illness response, helping fight opioids abuse, promoting the development of innovative medical products, investing in blood pathogen reduction technology, and supporting the preparedness infrastructure.
- **Community Health Centers:** The budget maintains the current funding level of $5.6 billion for Community Health Centers, including $4 billion in mandatory resources available in each of FY20 and FY21. The budget notes that funding is intended to continue to support access to substance use disorder services, including medication-assisted treatment and pain management services. The budget also provides $50 million for Community Health Centers to expand HIV/AIDS services, outreach, and care coordination.
- **Health Care Workforce:** The budget proposes to consolidate federal graduate medical education spending from Medicare, Medicaid, and the Children's Hospital Graduate Medical Education Program into a single grant program for teaching hospitals. Total funds available for distribution in FY20 would equal the sum of Medicare and Medicaid's 2017 payments for graduate medical education, plus 2017 spending on Children's Hospital Graduate Medical Education, adjusted for inflation. This amount would then grow at the CPI-U minus one percentage point each year. Payments would be distributed to hospitals based on the number of residents at a hospital (up to its existing cap) and the portion of the hospital's inpatient days accounted for by Medicare and Medicaid patients. (**-$47.9 billion** in estimated spending reductions over FY20–FY29.)

    - In addition, the budget would eliminate $49 million for training in primary care, $88 million for training for diversity, and $151 million for nursing workforce development starting FY20.

For more information on the budget proposal, please contact Sheila Burke or any member of Baker Donelson's Government Relations and Public Policy Group.