

March 11, 2005

MASI REPORT TO THE HEALTH POLICY COMMITTEE

The Congressional Budget Office (CBO) released its analysis of the President's \$2.57 trillion budget on March 4. The next step is for the House and Senate Budget Committees to mark up separate versions of the budget. On March 9, Senate Majority Leader Bill Frist (R-TN) outlined a five-point agenda for improving the health care system, including medical tort reform, expanding health savings accounts, creating association health plans and electronic medical records, and adopting refundable tax credits to help individuals purchase health insurance. Medical malpractice will likely be the first issue tackled. The Administration's first victory in tort reform came on February 18, when President Bush signed a bill to shift many class action lawsuits from state to federal court.

Others news of interest from the Hill concerns the reorganization of the Senate Appropriations Committee, which is now more in line with the House reorganization that occurred in February. The Medicare Payment Advisory Commission (MedPAC) released its March 2005 report to Congress; a brief analysis will follow in this report.

Senate Appropriations Committee Reorganized

On March 2, Senate Appropriations Committee Chairman Thad Cochran (R-MS) announced a reorganization of the committee, reducing the number of subcommittees from 13 to 12. The plan more closely aligns with the recent House Appropriations Committee reorganization, which resulted in a reduction from 13 to 10 subcommittees. The VA-HUD subcommittee was eliminated in the Senate, and the jurisdictions of many of the other subcommittees will be reshuffled. In addition to announcing the new plan, Sen. Cochran also relinquished the chairmanship of the Homeland Security Subcommittee, which will now be chaired by Sen. Judd Gregg (R-NH). The reorganization will largely avert difficult negotiations that would have ensued if the House and Senate Committees not been better aligned. A year-end omnibus spending package would almost have been a certainty.

Medicaid Reform Continues

President Bush met with the nation's governors at the National Governors' Association (NGA) annual winter meeting, during which Medicaid reform was the main agenda item. President Bush, in his Fiscal Year (FY) 2006 Budget, proposed a \$60 billion reduction in Medicaid spending over ten years; the bulk (\$40.5 billion) would come from curbing states' use of controversial accounting practices thought to boost federal matching funds. Approximately \$15 billion would come from lowering payments to pharmacists (by changing the average wholesale price payments for prescription drugs), and about \$4.5 billion would result from implementing more stringent restrictions on nursing home

eligibility. The administration maintains that they do not plan on cutting Medicaid; rather, the budget request would slow the growth of the program to 7.2 percent from 7.4 percent.

Even as governors resisted the proposed budget “cuts” during the NGA meeting, there was some agreement on giving states flexibility to reshape programs and also to decide eligibility standards and benefit levels. The NGA meeting largely ended in stalemate. The governors sent a letter to Congress requesting that Medicaid discussions be kept separate from federal budget negotiations, to allow more time for them and the House and Senate Budget Committees to work out strategy. House Budget Committee Chairman Jim Nussle (R-IA) announced on March 3 that he will give authorizing committees until September to present legislation containing savings from entitlement programs as dictated in the budget resolution. Congress has not used the reconciliation process to enact entitlement savings since 1997.

The House and Senate Budget committees recently approved their budget resolutions for FY 2006. The House Budget Committee passed its resolution late March 9 by a party-line vote of 22-15; reconciliation instructions direct the Energy and Commerce Committee to cut \$20 billion over five years in programs under its jurisdiction. The House Ways and Means Committee was also instructed to find \$18.7 billion in savings over five years; however, these savings will not likely come from reductions to Medicare. The Senate Budget Committee approved its resolution on March 10 in a party-line 12-10 vote. The Committee’s reconciliation instructions direct the Senate Finance Committee to cut \$15 billion over five years from its programs of jurisdiction.

Whether or not these savings will come from Medicaid is currently a matter of speculation, although nearly \$14 billion in savings from Medicaid is expected to come from the Senate. House Energy and Commerce Committee Chairman Joe Barton (R-TX) and Senate Finance Committee Chairman Charles Grassley (R-IA) will be responsible for producing legislation to implement these entitlement savings.

Health Resources Services Administration

The Health Resources Services Administration (HRSA) recently outlined its strategic plan for FY2005 – 2010 which sets out the following goals:

- Goal 1: Improve Access to Health Care
- Goal 2: Improve Health Outcomes
- Goal 3: Improve the Quality of Health Care
- Goal 4: Eliminate Health Disparities
- Goal 5: Improve the Public Health and Health Care Systems
- Goal 6: Enhance the Ability of the Health Care System to Respond to Public Health Emergencies
- Goal 7: Achieve Excellence in Management Practices

Betty Duke, HRSA Administrator also announced several changes in leadership positions. Michelle Snyder will be the new associate administrator at the Bureau of Primary Health Care; Don Weaver will be the deputy associate administrator. David

Rutstein will move from his role as deputy associate administrator for the Bureau of Health Professions (BHPr) to head the Office of International Health Affairs. June Horner will be the new deputy associate administrator for BHPr. Jennifer Burke will serve as the acting director of the Division of National Health Service Corps. Bill Robinson will become the director for the Office of Minority Health, which will be renamed the Office of Minority Health and Health Disparities. He will remain HRSA's chief medical officer.

MedPAC Releases Report to Congress

The Medicare Payment Advisory Commission (MedPAC) released their March report to Congress. This report reviews Medicare payment systems for; hospital inpatient, hospital outpatient, physician, skilled nursing, home health, and outpatient dialysis. MedPAC is recommending that payment for hospitals, physicians, and home health be based on quality of performance. The Commission also acknowledges that its recommendations will increase demands placed on the Centers for Medicare and Medicaid Services (CMS) and requests that Congress provide both financial resources and administrative flexibility to the agency.

The report discusses categories of proposals aimed at meeting future demands among beneficiaries and providers to expand benefits and payment rates. Such categories include; constraining payment rates, managing use and provision of services, raising the age of eligibility, increasing beneficiary cost-sharing, and increasing Medicare financing. The report requests that policymakers consider effects on access and quality of care when reviewing proposals to limit growth in spending.

MedPAC finds that access to care, physician supply, and volume of physician services indicate that Medicare payments for services are adequate. The Commission is recommending a fee schedule update increase of about 2.7 percent for 2006. It is also recommending that claims data be used to measure resource use for fee-for-service providers, and that results be shared confidentially to educate providers on how they compare with aggregated peer performance.

Other Health Policy News

- Dr. Elias Zerhouni, NIH Director, facilitated a meeting on February 24 with senior-level agency scientists to allow opportunity for some discussion on the new NIH Conflict-of-Interest Guidelines. Researchers presented Dr. Zerhouni with a draft outline of alternative ethics guidelines, which would exempt NIH employees who are not institute directors, clinical directors and officials with significant authority at the agency from some of the restrictions on consulting arrangements and stock ownership. Additionally, nonscientific NIH employees, spouses and children of employees, would be able to own unrestricted amounts of stock in any company.

The new ethics regulations are open to public comment for one year before becoming final. Dr. Zerhouni encouraged researchers to submit comments on the revised guidelines.

- Lester Crawford, Acting Commissioner of the Food and Drug Administration (FDA), was nominated for the permanent Commissioner position. Senate confirmation hearings for Crawford are expected to also address the fiscal year 2006 President's FDA budget.
- On March 4 the Congressional Budget Office (CBO) stated that its estimate for the drug benefits for the 10-year period ending in 2015 had grown by \$54 billion since January. A separate CBO letter used figures that indicated a total over that 10-year period of \$849 billion. The \$849 billion did not include savings expected to accompany the new program.
- On March 4 the *Federal Register* published the proposed rule on the Competitive Acquisition Program (CAP). The CAP will implement an alternative to the 106 percent Average Sales Price (ASP) reimbursement system for Part B drugs. Under the program, physicians may select a CAP vendor that will supply drug to the physician's office and bill Medicare and the beneficiary directly. The proposed rule reiterates that physician participation in the CAP is optional.
- On March 9, the Senate Health, Education, Labor and Pensions Committee approved legislation to reduce medical errors in the health care system. The "Patient Safety and Quality Improvement Act of 2005 (S. 544)" is similar to previous versions. It would require HHS to certify a number of private and public organizations to act as patient safety organizations (PSOs). These PSOs would analyze medical error data, determine the causes, and develop and disseminate information to providers to encourage implementation of changes to improve patient safety. The legislation would also require the HHS secretary to develop or adopt voluntary standards that promote the electronic exchange of health care information. Both the House and Senate approved patient safety legislation in 2004; however, it failed to move through the conference committee process.
- The Association of American Medical Colleges (AAMC) has recommended a 15 percent increase in U.S. medical school class sizes (as compared to 2002 classes) as well as a matching numeric increase in residency training position. The recommendations were outlined in the AAMC's February 2005 report on physician workforce. Several reasons were cited for expanding physician workforce numbers and training including unmet demand for physician services, physician shortages in certain geographic areas, shortages of physicians from certain ethnic and racial groups, and an "over dependence" on graduates from international medical schools.

