THE CRD ASSOCIATES'

HEALTH POLICY REPORT

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Coping with reality

While lawmakers continue to struggle with the effects of sequestration, key appropriators are already worrying about the tough choices they face with next year's spending bills.

House appropriations committee chairman Hal Rogers (R-KY) says the spending caps imposed by the recently-passed House budget resolution would lower overall discretionary spending to $967 billion, $17 billion *below* the current funding level—the one triggering government furloughs and other deep cuts to programs.

Rogers, who opposed the March across-the-board cuts triggered by sequestration, said he is still holding out hope that a "grand bargain" will be struck later this year. In the meantime, his committee will proceed to draw up spending bills that stay within the $967 billion spending cap.

The problem is that Rogers will find it hard to muster the votes within his own party to pass individual spending bills that include the sort of draconian cuts necessary to stay within the spending limit.

Later this month, Rogers faces the difficult task of dividing the $967 billion among his panel's 12 subcommittees. Several subcommittee chairs have already indicated that the cuts necessary to hit their individual spending targets will draw few, if any, Democratic votes, while conservative GOP lawmakers will argue that spending cuts are not deep enough.

That leaves Republican leaders at risk of not having enough votes to pass their own bills.

In the meantime, Senate appropriations chair Barbara Mikulski (D-MD) is working feverishly to cobble together enough Senate Republican votes to begin moving bills through her committee. Mikulski plans to operate under a higher spending ceiling, $1.058 billion. That is the pre-sequestration level agreed to by Congress and the President set during 2011 debt ceiling negotiations. Mikulski's plan assumes that a way is found to replace sequestration.

The next debt limit crisis

The next battle over the debt limit may be postponed, perhaps until September or October, because the federal government is taking in more tax revenue than anticipated, including income from the recovery of taxpayer-owned mortgage companies, Fannie Mae and Freddie Mac.

That would mean the president and congressional lawmakers can buy more time to come up with an agreement to raise the $16.4 trillion debt ceiling.

Some lawmakers are hoping that the extra time also would prompt a deal that eases spending limits for discretionary programs through entitlement changes and comprehensive tax reform. However, that has not occurred in recent spending/taxing crises to date.

President's budget mirrors House GOP plan for SGR

The president's fiscal year 2014 budget proposal to Congress calls for a permanent solution to the Medicare physician reimbursement dilemma that is similar to the approach outlined recently by House Republicans.

The Medicare Sustainable Growth Rate (SGR) formula that dictates

reimbursement levels for healthcare providers has been temporarily suspended through short-term patches for each of the past 16 years. If another fix is not enacted, physicians face a 25 percent cut in 2014.

Earlier this year two House Committees -- Ways and Means, and Energy and Commerce – collaborated to develop a three-stage approach for freezing current reimbursement rates, repealing the SGR and moving to a new reimbursement system. The final phase of the new plan would provide a base reimbursement rate as well as adjustments arising from measures of quality of care and efficiency of treatment.

The Obama administration says it "supports a period of payment stability lasting several years to allow time for the continued development of scalable accountable payment models. Such models can take different forms, but all will have several common attributes such as encouraging care coordination, rewarding practitioners who provide high-quality, efficient care, and holding practitioners accountable through the application of financial risk for consistently providing low-quality care at excessive costs."

SGIM Comments on Latest SGR Reform Proposal

The House Ways & Means and Energy & Commerce committee Republicans are continuing their efforts to develop a replacement for the SGR while it is on "sale." The cost of replacing the flawed payment formula has fallen from over $300 to $138 billion.

The proposal includes a three part plan:

1. Repeal the SGR and establish a period of stable and predictable updates in physician fees.
2. Create an Update Incentive Program where physician payments will consist of a base rate and variable rate tied to performance on quality measures and clinical improvement activities that would be developed in conjunction with physician specialties.
3. Provide incentive payments based on the efficient use of resources added to the base and quality incentive payment rates.

Under the proposal, physicians would also be able to opt out if they are participating in approved alternative payment models, like Accountable Care Organizations (ACOs) or Patient-Centered Medical Homes (PCMH).

This is the second, more detailed proposal released by the House committees, and SGIM has provided comments on both proposals. While the Society's comments

have generally been supportive, the difficulty will be in the details. Some of the concerns raised by SGIM include how the program will be risk-adjusted and ensuring that physicians receive real time data on their performance.

NIH grantees to feel sequester pinch

Unless our national leaders find a way to pull back sequestration, officials at the National Institutes of Health (NIH) are predicting that somewhere between 400 and 700 fewer new research grants will be issued this year. Currently, only one in six grant applications are funded, but that figure will likely drop because of sequestration cuts.

Unlike some other federal agencies, NIH will not be furloughing its employees because staff salaries account for a relatively small percentage of the agency's overall $31 billion annual budget. Instead, NIH will produce internal savings through measures such as limiting travel and delays in filling empty positions.

About 85 percent of the NIH budget supports extramural research; only 6.6 percent goes to pay the salaries of NIH employees.

NIH Director Francis Collins said earlier this year that each of the 27 institutes and centers at the agency is required to cut 5.1 percent from its budget by September 30.

Nearly three-quarters of the money NIH will provide for so-called extramural grants this year will go to projects approved in prior years. The agency will soon announce how much of a cut those grants will take. And not all grants will be cut by the same percentage because of the discretion NIH managers have to apportion the cuts within their institutes and centers.

NIH officials cite figures showing that thousands of jobs would be lost at academic research institutions because of the $1.5 billion or so in cuts required under sequestration. "Somewhere in the neighborhood of 20,000 jobs will be lost," according to Collins, estimating that extramural grants fund a total of 430,000 jobs.

CRD Associates' Emily Holubowich, who represents a coalition of more than 80 groups including patient advocacy organizations, medical schools, and scientists, said she is

advising members to expect grant cuts of 5 percent or more if the sequestration isn't stopped.

"Research lobbyists could push for an exemption just as the airline industry did with FAA, arguing medical research saves money, saves lives, it's a job creator, and therefore should be exempt," says Holubowich, whose group along with other organizations are pushing for elimination of sequester provisions across the board. "Policymakers will soon realize you can't address sequestration through a piecemeal approach. Rearranging the deck chairs on the Titanic is not sound fiscal policy."

But coming up with an alternative way to generate fiscal 2013 savings is going to be a tall order.

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