Medicare Savings: Changes in the $98 Billion Package to Get to $124 Billion

Note: Start dates for many proposals have been changed to adjust 1996 effective dates in the original bill while still realizing maximum achievable savings. Not all start date changes for individual proposals are shown here.

- **Inpatient and Outpatient Hospitals:**
  - PPS and PPS-exempt update reduction at MB-1.5% for FY 1996-2002. Original bill had MB-1% for 1997-2000 (1996-2000 for PPS-exempt hospitals); MB-1.5% was limited to 2001-2002. **Coalition:** Freeze payments in FY 1996; urban update at MB-1.5% for FY 1997-20002; rural update at MB-0.5% for FY 1997-2002.
  - No DSH reduction. **Coalition:** No DSH reduction.
  - OBRA 90 OPD reductions in capital and operating payments permanently extended. OPD formula-driven overpayment (FDO) eliminated 4/1/96. OPD PPS implemented in 2002. **Coalition:** Eliminates FDO; OPD PPS set to save 10%; no OPD extenders.
- **Medical Education:**
  - The President's plan now returns 100 percent of the savings from removing IME, GME and DSH from the AAPCC, rather than only 75 percent. **Coalition:** Return 75%.
  - The IME adjustment will still be reduced from 7.7 percent to 6.0 percent, but the phase-in schedule has been moved up; the IME adjustment will be equal to 6.0 percent by FY 1999, rather than FY 2001. **Coalition:** Lower IME to 6.0% for FY 1996-1999, increase IME to 6.8% for FY 2000 and thereafter.
  - The following 2 proposals were dropped from the **Medical Education (GME) Reform** package: (1) extending the OBRA 1993 freeze on updates for non-primary care residents; and (2) counting residents beyond their initial residency period as 0.5 FTE for IME. **Coalition:** No GME cuts.
- **Physicians:**
  - Basic restructuring of fee updates/MVPS policy remains unchanged. Single conversion factor is $35.42, effective 4/1/96 (to capture some 1996 savings). **Coalition:** Single conversion factor is $36.40. Revised bill increases the maximum allowable reductions to inflation updates (making it the same as **Coalition**), which increases savings on CBO's baseline.

- No transition for surgical services. Clarifies treatment of anesthesia conversion factor in 1996 -- is based on 1995 conversion factor reduced by the same percentage as the surgical conversion factor (i.e., about a 13 percent reduction). **Coalition:** Did not deal with anesthesia separately from other services (could have resulted almost doubling of conversion factor, but not priced this way).

- **Home Health/Skilled Nursing Facilities:** No significant changes. **Coalition Home Health:** Very similar to Administration but does not eliminate PIP and extends OBRA 93 freeze by 1 year and captures the savings. **Coalition SNF:** Routine ancillaries brought under the cost limits and non-routine services subject to a blended per-stay limit; does not establish PPS; extends OBRA 93 freeze by 1 year and captures savings.

- **Other Providers:**

  - Durable Medical Equipment: Adds freeze on all DME payment updates (including oxygen), effective for 1997-2002 (adapted from **Coalition** bill).

  - Oxygen: Drops direct oxygen cut that started at 20 percent and increased to 30 percent by 2002 (same as Conference Agreement). Adds annual cut of 10 percent (adapted from **Coalition** bill). Combined with freeze on payment updates, the provision reduces oxygen payments from baseline by about 30 percent by 2002.

  - Ambulatory Surgical Centers: Delays effective date for CPI-2% reduction to 1997-2002. Increases reduction to CPI-3% in 1997-1998 (to make up for lost savings in 1996). **Coalition:** ASC payment update frozen for one year.

- **Beneficiaries:** No changes. **Coalition:** Part B premium extended beyond 1998 at 25% of program costs, and income-related premium (phase-out of Federal subsidy) for beneficiaries above $50,000 for singles and $75,000 for couples.

- **Managed Care:**

  - Savings increased to $22 billion, primarily because CBO will assume higher managed care enrollment than in their estimate of the $98 billion package. **Coalition:** Savings at $26.2 billion. Unlike Administration, AAPCC growth rate is decoupled from fee-for-service growth; rates are constrained in both plans.

  - HMO floors and ceilings proposal is eliminated because this bill adopts the Conference Agreement's budget-neutral methodology for reducing geographic variation in managed care payments. **Coalition:** No provision.

- **New Benefits:**

  - Preventive benefits now start in 1998. Added barium enema to colorectal screening procedures covered. Added diabetes screening benefits (from Coalition bill). Respite benefit now starts in 2002. **Coalition:** Benefits start in 2001. Package includes mammography (covers beneficiaries over age 49, does not waive copay); pap smear coverage; colorectal screening (no barium enema); prostate cancer screening; diabetes management; no vaccine payment increases.

- **Rural Health Care:**

  - Telemedicine grants, rural health outreach grants, and rural referral centers language from 11/1/95 Senate Democratic budget package now included in the President's plan. Rural Medicare Dependent Hospitals to get Sole Community Hospital (SCH) payment. Direct payment authorized to physician assistants, nurse practitioners, and clinical nurse specialists. **Coalition:** SCH update at MB-1.0% for FY 1996-2000; REACH program; Conference rural referral centers, floor on area wage index, and payments in HPSAs provisions; telemedicine; rural Medicare Choice demos.

- **Fraud and Abuse:**

  - Adopted fraud and abuse provisions from Conference Agreement, but without provisions that would create new exceptions to anti-kickback penalties for managed care plans and make it more difficult to impose civil money penalties. Includes selected physician self-referral relaxations from the Coalition bill. **Coalition:** No mandatory FBI funding; authorizes funds for three 18-month demo projects (not for 7 years); anti-trust relief to hospitals in towns of less than 100,000 people that are attempting to merge, consolidate, or share services; exempts Medicare Choice PSOs from "per se" antitrust violations. Authorizes other antitrust protections for "collaborative health care activities." Repeals physician self-referral prohibitions based on compensation arrangements.