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Government spending bills and budget proposal center on access and affordability

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The Buzz This Week

March saw a flurry of government budgetary news as President Biden signed two spending bills, completing appropriations activities for fiscal year (FY) 2024, which runs through September 30. In addition, the White House recently released a proposed \$7.3 trillion budget for FY2025, with a focus on improving access and affordability.

The first bill, which funds six federal agencies with \$460 billion, was signed in early March. The second bill was signed March 22, and covers the remaining six federal agencies with \$1.2 trillion. These bills follow three other short-term, stopgap budget measures to avert a government shutdown.

These packages work together to fund the Department of Health and Human Services (HHS) and include several key initiatives to support the nation's healthcare system. Included among the bills' initiatives are:

- A postponement of Medicare disproportionate share hospital (DSH) payment reductions.
- A “softening” of Medicare physician reimbursement reductions.
- Increased funding for community health centers (CHCs).
- Support for several national programs targeting specific diseases.
- Adjustments to accountable care organizations (ACOs) bonus payments.
- Increased graduate medical education (GME) funding.

The proposed FY2025 budget of more than \$7 trillion further addresses healthcare concerns. The budget's primary healthcare initiatives focus on increasing access to care, lowering healthcare costs and drug prices, expanding access to prescription drugs, building on the Affordable Care Act through Medicaid-like coverage, and extending the solvency of Medicare for another 25 years through additional taxes on high-income earners.

The proposed budget also includes more than \$100 billion in cybersecurity initiatives for the healthcare sector. It would also fund initiatives focused on the youth mental health crisis, maternity care deserts, and substance abuse treatment, to name a few.

Why It Matters

The new funding package for FY2024 gives HHS a \$117 billion budget, a 1% increase over FY2023. Much of the funding—nearly \$49 billion—is allocated to health research initiatives through the National Institutes of Health, with specific emphases on the National Cancer Institute (\$120 million), the National Institute on Aging (\$100 million), and the National Institute of Mental Health (\$75 million). Another \$9 billion is committed to the Centers for Disease Control and Prevention, with increased funding for maternal health and morbidity, an area of growing concern across the industry.

Bruce Siegel, MD, president and CEO of America's Essential Hospitals, said the postponement of reductions in Medicare DSH payments and the extension of ACO bonus payments “allow policymakers valuable time to find lasting solutions” to funding cuts they have been discussing for years. However, to make the ACO bonus extension fundable, bonuses will shrink from 3.5% to 1.88% across a longer period of time.

Many provider groups are disappointed with the short-term patches, particularly around the 2024 Medicare physician payment cuts, of which half will continue. Jesse Ehrenfeld, MD, president of the American Medical Association, said in a press release, “The need to stop the annual cycle of pay cuts and patches and enact permanent Medicare payment reforms could not be more clear.”

These bills also help shore up the industry's safety net. CHCs and GME programs saw large budget victories, with 10% and 56% increases, respectively. The allotted \$4.27 billion for CHCs and the addition of 200 new GME slots in FY2026 will help fill gaps in specialty care access. (Half of these slots are reserved for psychiatry and related subspecialties.) The investment should also help grow the physician workforce, ideally providing long-term improvements.

Looking to 2025, President Biden's ambitious budget proposal sets the tone for the upcoming election cycle where healthcare is concerned. Seeking to ensure access and affordability in healthcare, his budget calls for “Medicaid-like coverage” for individuals in states where Medicaid wasn't expanded. It also includes incentives for other states to maintain their existing expansions.

Meanwhile, the vitality of Medicare remains a major concern. As it stands, the Medicare trust fund is expected to run out in 2031, which would leave millions without coverage. The president's proposed budget calls for an increase in Medicare tax rates from 3.8% to 5% for individuals making more than \$400,000 annually. The net income tax revenue would be transferred to the Medicare trust fund to ensure continued coverage.

The proposed Medicare drug-price negotiations also aim to improve access and affordability. Negotiations include prescription drug price cuts for up to 500 drugs over the next decade, saving taxpayers an anticipated \$200 billion. The proposal to expand the Inflation Reduction Act out-of-pocket drug cap and the \$35/month insulin cap to the commercial market would add to these drug-affordability measures.

Though many of the president's budget initiatives focus on continuing longstanding health initiatives, they also emphasize the growing importance of cybersecurity. The proposed budget allocates substantial financial resources to defend against cyberattacks and includes additional penalties for hospitals failing to meet new cybersecurity standards that take effect in 2029.

While FY2024's budget has been established, the recent bills overlook legislation Congress has considered since last year, including a tighter regulation of pharmacy benefit managers and site-neutral Medicare payments. Legislation on these matters continues to circulate through Congress.

Lastly, while the FY2025 budget works to address some key issues in the US healthcare system (namely insurance coverage, access, and affordability), presidential budget proposals are rarely enacted as originally written. Election year budgets tend to be aspirational, setting the bar high as a starting point for upcoming negotiations, which means we can expect more changes to come.

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Meredith Deal

Senior Research Associate