

Dear PMC Members:

IFR Status

Regarding the IFR delay, CMS is planning on issuing something for interim guidance, such as a MedLearn article, and have stated that such guidance will be released "sooner rather than later." The PMC will alert PMC members as soon as any guidance on the IFR is released.

President Bush's 2007 Federal Budget

President Bush released a \$2.7 trillion budget proposal for fiscal year (FY) 2007 that reduces Medicare spending by 1.4%, or 2.56 billion in the coming fiscal year and calls for a further \$36 billion in Medicare spending reductions over 5 years. The President publishes his budget at this time every year, and although everything it contains will not become law, this budget will serve as a starting point for negotiations as Congress continues the budget process.

Specific proposals that impact Durable Medical Equipment (DME) suppliers include:

- The use of competitive bidding in the purchase of DME will be introduced in 2007 in 10 specially selected markets, with the expectation of expanding to an additional 70 markets over the next two years;
- In an attempt to reduce the growing expenditure in power wheelchairs, Medicare reimbursement for short-term power wheelchair usage will be re-evaluated to reflect the actual time the equipment is used, as opposed to paying up front at the full purchase price. The Administration estimates that this change will save the Medicare program \$490 million over five years from the Medicare power mobility benefit.
- As part of the accelerated strategy to introduce new Medicare administrative contracts (MACs) to replace cost contracts, the four DME MACs awarded in January will begin transition activities and will assume full responsibility for claims processing on July 1, 2006.

Beyond changes that specifically affect the DME industry, the budget proposes funding cuts in a number of other Medicare programs. Many of these cuts deal with the home health industry, and are consistent with the recommendations made in the most recent

Medicare Payment Assessment Commission (MedPAC) report to Congress. These additional Medicare cuts include:

- A reduction of .4% in the reimbursement rate on all hospital payments as well as those to hospices and ambulances;
- Increased monthly premiums for beneficiaries with incomes greater than \$80,000 under Medicare Part B, which covers physician and outpatient care. These income requirements will not be linked to inflation, so it can be expected that many more beneficiaries will pay the higher premiums in the future;
- A freeze in payments to nursing homes, home health agencies and inpatient rehabilitation facilities; and
- A proposal to phase out bad debt reimbursement to Medicare providers between 2007 and 2011 as a means of ensuring beneficiaries meet their obligations to contribute to their medical care costs.

Budget proposals related to other federal health care programs include:

- The implementation of plans limiting opportunities for Medicaid spend-down. By lengthening the look-back period, altering the treatment of annuities and home equity in the asset calculation process and changing the timing involved in, fewer people will become eligible for long term care funded by Medicaid;
- New regulatory rules introduced to cap payments to government providers and clarify services that can be reimbursed for as rehabilitation expenses;
- An increase in Medicaid premiums to as much as 5% of family income for certain groups of beneficiaries and services;
- Reimbursements for targeted services and multiple source drugs will also decrease for an estimated cut of \$208 million and \$130 million in 2007. However more middle-income families with disabled children will be given the option to buying into Medicaid;
- A total reduction of \$28 million to the budget of the Administration on Aging, including almost \$27 million less than last year to State and Community based services and the elimination of preventive health services;
- Larger tax breaks for individuals who switch to health plans with deductibles of at least \$1,050. Deductibles of that size are required in order to qualify for Health Savings Accounts (HSAs), and this proposal is part of an effort to make HSAs more popular with employers and individuals who pay for health insurance on their own;
- A further modification to HSAs that would allow employers to contribute more money to the accounts of workers with greater health care expenses;

- An allocation of \$2.65 billion in funds to protect the nation against a pandemic flu, to be added to \$3.3 billion already approved by Congress. The funding would be used to purchase flu vaccines for every U.S. resident and to provide antiviral drugs to 25% of the population in an emergency;
- A proposed budget of \$28.6 billion for the National Institutes of Health (NIH), identical to the 2006 budget. This includes small cuts to 18 of 19 NIH institutes. Only the National Institute of Allergy and Infectious Diseases -- leading the research on pandemic flu and bioterrorist attacks -- would receive an increase. The National Cancer Institute would receive \$4.75 billion, \$40 million less than its FY 2006 budget. The National Heart, Lung and Blood Institute would receive \$2.9 billion, \$21 million less than its current budget;
- An increase in health care costs for middle-income veterans with no service-connected disability, including higher co-payments for prescription drugs and a new fee for the use of government health care; and
- A funding decrease for the Office of Minority Health and programs that train health care professionals and the elimination of programs to treat people who have traumatic brain injuries and to improve children's emergency medical services.

The PMC will continue to monitor the budget process and inform PMC members of potential changes that could impact suppliers who participate in federal health care programs.