



# The Budget Control Act and the Impact of Sequestration on the Healthcare Industry

November 2011  
Avalere Health, LLC

# Joint Select Committee Followed A Number of Deficit Commissions and Budget Proposals

Proposal Authors	Date Released	Total Projected Savings
<b>The Debt Reduction Task Force, chaired by Dr. Alice Rivlin and former Sen. Peter Domenici<sup>1</sup></b>	November 17, 2010	\$5.9 trillion over 9 years
<b>The National Commission on Fiscal Responsibility and Reform, chaired by Erskine Bowles and former Sen. Alan Simpson<sup>2</sup></b>	December 1, 2010	\$3.9 trillion over 9 years
<b>Sens. Claire McCaskill (D-Mo.) and Bob Corker (R-Tenn.)<sup>3</sup></b>	February 1, 2011	Not specified
<b>Rep. Paul Ryan (R-Wis.)<sup>4</sup></b>	April 5, 2011	\$5.8 trillion over 10 years
<b>Budget Control Act of 2011<sup>6</sup></b>	August 2, 2011	\$1.2 trillion over 10 years
<b>President Barack Obama<sup>5</sup></b>	September 2011	\$3 trillion over 10 years (\$4 trillion with BCA cuts)

1. <http://www.bipartisanpolicy.org/projects/debt-initiative/about>  
2. <http://www.fiscalcommission.gov/news/moment-truth-report-national-commission-fiscal-responsibility-and-reform>  
3. <http://www.gpo.gov/fdsys/pkg/BILLS-112s245is/pdf/BILLS-112s245is.pdf>  
4. <http://budget.house.gov/fy2012budget/>  
5. <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/jointcommitteereport.pdf>  
6. <http://www.gpo.gov/fdsys/pkg/BILLS-112s365eah/pdf/BILLS-112s365eah.pdf>

# Previous Proposals Reflect Wide Range of Beneficiary Cuts

Proposal Authors	Raise Medicare Eligibility Age	Changes to Medicare Out-of-Pocket Cost-Sharing	Remove First Dollar Coverage from Medigap	Raise Medicare Part B Premiums
The Debt Reduction Task Force, chaired by Dr. Alice Rivlin and former Sen. Peter Domenici				X
The National Commission on Fiscal Responsibility and Reform, chaired by Erskine Bowles and former Sen. Alan Simpson	X		X	
Rep. Paul Ryan (R-Wis.)	X	X	X	
President Barack Obama				X

\*Note that the proposals included here are not an exhaustive list of those put forth by committees and commissions to date.

# Previous Proposals Continued to Trim Medicare Provider Payments

Proposal Authors	Reduce Hospital Payments for Bad Debt	Nursing Home/Home Health Cuts	Independent Payment Advisory Board	Sustainable Growth Rate Fix
The Debt Reduction Task Force, chaired by Dr. Alice Rivlin and former Sen. Peter Domenici			X	X
The National Commission on Fiscal Responsibility and Reform, chaired by Erskine Bowles and former Sen. Alan Simpson			X (repeal or reform)	X
Rep. Paul Ryan (R-Wis.)			X (repeal)	X
President Barack Obama	X	X	X	

\*Note that the proposals included here are not an exhaustive list of those put forth by committees and commissions to date.



# Previous Proposals Considered Significant Structural Changes to Medicare and Medicaid

Proposal Drafters	Variations of Medicare Premium Support	Medicaid Block Grants	Medicaid “Blended” Matching Rate
The Debt Reduction Task Force, chaired by Dr. Alice Rivlin and former Sen. Peter Domenici	X		
The National Commission on Fiscal Responsibility and Reform, chaired by Erskine Bowles and former Sen. Alan Simpson	X		
Rep. Paul Ryan (R-Wis.)	X	X	
President Barack Obama			X

\*Note that the proposals included here are not an exhaustive list of those put forth by committees and commissions to date.

# Previous Proposals Also Included Other Notable Healthcare Savings Proposals

Proposal Drafters	Drug Rebates for Medicare-Medicaid Dual Eligibles	Increase Dual Eligible Enrollment in Managed Care	Limit or Restrict State Provider Taxes in Medicaid	Limit Federal debt, spending, health spending, and/or Medicare spending
The Debt Reduction Task Force, chaired by Dr. Alice Rivlin and former Sen. Peter Domenici		X		X
The National Commission on Fiscal Responsibility and Reform, chaired by Erskine Bowles and former Sen. Alan Simpson	X	X	X	X
Sens. Claire McCaskill (D-Mo.) and Bob Corker (R-Tenn.)				X
Rep. Paul Ryan (R-Wis.)				X
President Barack Obama	X		X	X

\*Note that the proposals included here are not an exhaustive list of those put forth by committees and commissions to date.

# Timeline of Budget Control Act of 2011 Milestones

**Aug 2, 2011**

BCA passes - raises debt ceiling by \$2.1 - \$2.4 trillion through 2013

**Nov 23, 2011**

Joint Select Committee must recommend \$1.2 trillion in savings

**January 15, 2012**

If Congress fails to approve the plan, then automatic "sequestration" is triggered

Aug. 2011

Oct. 2011

Nov. 2011

Dec. 2011

Jan. 2012

Jan. 2013

**Aug 10, 2011**

Congressional Joint Select Committee on Deficit Reduction appointed

**Dec 23, 2011**

Congress must vote to approve or reject the Committee's proposal

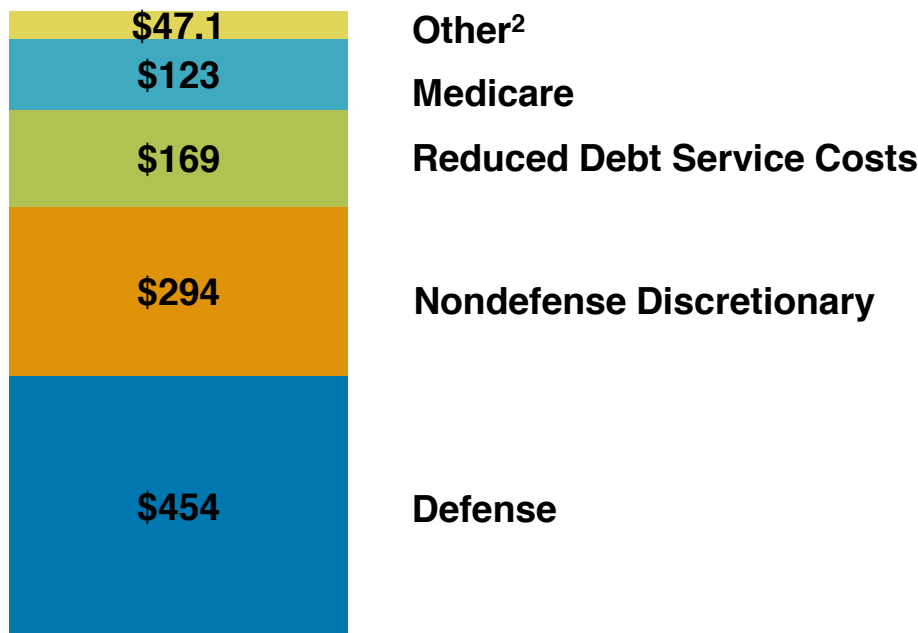
**January 2, 2013**

Sequestration calculated by OMB and ordered by President

# Majority of Sequestration Savings Come from Non-Health Programs

- If Congress fails to approve savings by January 15, 2012 then across the board cuts totaling \$1.2 trillion from 2012-2021 will take effect starting January 2013
- Medicaid, the Children's Health Insurance Program (CHIP), Part D Low-income Subsidies, Catastrophic Coverage subsidies, the Qualified Individual program, and Affordable Care Act exchange premium subsidies are exempted from the cuts.

## Projected Savings from Sequestration (in Billions), 2013-2021<sup>1</sup>



1. Congressional Budget Office. "Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act", September 12, 2011.

2. Other includes mandatory budgetary resources for nonexempt defense programs and nonexempt nondefense programs and activities

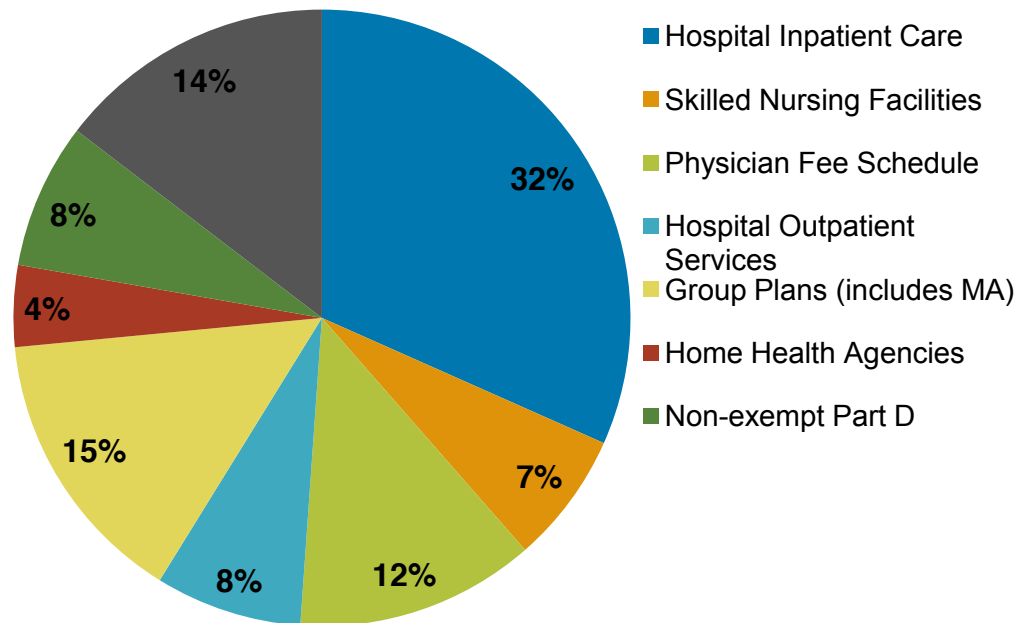


# Medicare Providers Hit Heaviest by Sequestration

## Healthcare Cuts

- Medicare cuts are limited to 2% for all non-exempt Medicare programs and activities
  - » Concentrated largely on providers and plan payments
- Congress still needs to address the Sustainable Growth Rate (SGR) to prevent even more significant cuts to Medicare physician reimbursement on January 1, 2012
- Exchange cost-sharing subsidies will be cut in addition to Medicare spending, which constitute 15 percent of exchange subsidy and related spending<sup>2</sup>

Share of Total FY13-FY21 Cuts, by Medicare Service Type<sup>1</sup>



LIS = Low-income subsidy

QI = Qualified individual

1. Medicaid, the Children's Health Insurance Program (CHIP), Part D LIS, catastrophic coverage, and QI program, and exchange premium subsidies (administered as tax credits) exempted from the cuts

2. <http://www.cbo.gov/budget/factsheets/2011b/HealthInsuranceExchanges.pdf>

# Sequestration Has Indirect Effects on Pharmaceutical and Device Manufacturers

---

- 40-50 percent of Part D spending is exempted from across the board cuts because Part D LIS and catastrophic coverage subsidies are not subject to the sequester
- A JSC agreement could have led to deeper cuts for manufacturers if proposals such as the following were included:
  - Extending Part D rebates to dual eligibles (approximately \$110 billion in savings over 10 years)
  - Banning pay-to-delay agreements to increase the availability of generic drugs and biologics (approximately \$2.7 billion over 10 years)
  - Reducing follow-on biologic exclusivity to 7 years (approximately \$3.5 billion over 10 years)

**Sequestration has indirect effects on pharmaceutical and device manufacturers because Medicare does not make direct payments to them.**