

Medicare and the 2013 Sequester

Alliance for Health Reform
November 16, 2012

Lisa Potetz, Principal
Health Policy Alternatives, Inc.

Medicare 2013 Sequester Overview

- Under the Budget Control Act, Medicare expenditures generally subject to a special rule limiting sequester to 2%
 - 2% limit applies to
 - individual payments for services furnished under the fee-for-service program; and
 - monthly payments under contracts for the Part C Medicare Advantage and Part D Prescription Drug programs
 - Some Medicare spending is exempt from sequester, including Part D low-income subsidies; Part D catastrophic subsidy; low-income premium subsidies under the Qualified Individual program; Medicare electronic health record (EHR) incentive payments
 - Medicare program administration not protected by 2% rule

Medicare 2013 Sequester Overview

- OMB preliminary estimates (September 2012):
 - \$11.6 billion from applying sequester to Medicare benefits and administration (\$110 billion total 2013 sequester)
- CBO March 2012 baseline assumes full 9-year sequester; \$99.3 billion total from Medicare
- OMB and CBO sequester estimates based on current law baselines which includes the Sustainable Growth Rate cut to physician fees

Potential Effects of 2013 Sequester on Medicare (From OMB Preliminary Estimates September 2012)

	Estimated Sequestrable Spending	Estimated Sequester Amount
	Amounts in billions	
Medicare Benefits (subject to 2% limit)	\$553.5	\$11.1
<i>Part A</i>	\$280.4	\$5.6
<i>Part B</i>	\$245.1	\$4.9
<i>Part D</i>	\$27.9	\$0.6
Program Administration*	\$6.6	\$0.5
Total	\$560.1	\$11.6

*Most Medicare program administration is classified as discretionary spending and subject to estimated 8.2% sequester; some is classified as mandatory spending and subject to estimated 7.6% sequester

Medicare Sequester Implementation

- For Medicare, 2013 sequester applies to payments for services furnished (and to capitation payments to MA and Part D plans made) beginning February 1, 2013 through January 31, 2014
 - Rule applies sequester to the 12-month period that starts on the first day of the first month following issuance of the President's sequester order (to be issued on January 2, 2013)
- 2% reduction applied to payments calculated under usual payment rules
 - Sequester excluded from program growth trends when adjusting future plan payment rates under Part C or Part D

Physician Fee Schedule for 2013: Effect of SGR

- Medicare physician payments not part of “fiscal cliff,” but issue is on same end-of-year schedule
- Effective for services furnished on or after January 1, 2013, Medicare's Physician Fee Schedule amounts are reduced by 26.5% from 2012 amounts by Sustainable Growth Rate formula
 - Final rule issued November 1, 2012
- Congress has consistently acted to prevent similar SGR-related fee reductions in the past
- CBO July 2012 estimates of the 10-year cost of various SGR fixes range from \$18.5 billion (1-year freeze) to \$376.6 billion (reset SGR target; positive annual updates)