



Avalere's Take: President Obama's FY2016 Healthcare Budget

Today, the President released his Budget for the 2016 Fiscal Year. Avalere offers the following observations:

In his Budget, the President proposes discretionary spending levels beyond what is permitted under the Budget Control Act and makes the case that the sequestration policies are counterproductive.

"The new Republican majority specifically and Congress generally will need to weigh the merits of sequestration as part of this spring's budget debate," said Craig Burton, director at Avalere. "Parts of the budget may support the bipartisan Congressional interest in advancing better therapies, but a challenge in this budget will be whether the Administration and Congress can come to terms with how to pay for their priorities."

Specifically, the President emphasizes investment in research and development, as well as savings from the life sciences sector.

"While the President's Budget commits to research and development, it also acknowledges the current debate over the cost of medication," said Elizabeth Carpenter, director at Avalere. "While many of the proposals included in the Budget will not gain traction under the new Republican majority, the Budget demonstrates that further debate on the cost of healthcare innovation is likely to come."

In general, the President's Budget points to historically low healthcare spending growth between 2011 and 2013. Specifically, the Budget recognizes the impact of the Great Recession on this trend, but asserts that there is "increasing evidence that much of [the shift] is a result of structural changes."

As in year's past, the Budget contains several proposals designed to identify areas of potential savings and ignite a policy debate. In addition to familiar proposals impacting the manufacturer, provider, and payer industries, as well as consumers, the President's Budget:

- **Supports efforts for faster cures.** Consistent with House and Senate efforts to bring new therapies to market quickly, the Budget proposes additional funding for the National Institutes of Health and for the new Precision Medicine initiative to bolster research and development efforts.
- **Acknowledges the current debate about the cost of medicines.** In particular, the Budget proposes to grant the Secretary of HHS the authority to negotiate drug prices for biologics and other medications in the Medicare Part D program. Interestingly, the Congressional Budget Office (CBO) projected previously and the administration now projects that this proposal will not lead to federal government savings. However, the

President's Budget alludes to Congressional debate on this issue and indicates, "[the] Administration looks forward to working with Congress on this challenge."

- **Reiterates the commitment to moving toward value-based care.** The Budget reinforces the Administration's goal of ensuring that 30 percent of Medicare payments are made through alternative payment models by 2016 and 50 percent by 2018. In addition, the Budget includes several proposals related to Accountable Care Organizations (ACOs) that would give the Administration increased flexibility in implementation of the ACO program.
- **Supports the repeal of the sustainable growth rate (SGR) formula.** Bipartisan, bicameral members of Congress also support replacing the SGR; however, lawmakers have yet to find consensus on funding offsets.
- **Supports strengthening the Independent Payment Advisory Board (IPAB).** The Budget projects nearly \$21 billion in savings over the 10-year budget window attributable to IPAB. Of note, most of these savings would accrue between 2021-2025. To date, IPAB has not been triggered as a result of lower-than-expected healthcare cost growth trends.
- **Proposes extending funding for the Children's Health Insurance Program (CHIP) through FY2019.** While the ACA extended CHIP funding through FY2015, additional action is necessary to keep the program funded through its remaining authorization in FY2019. To date, government stakeholders have largely expressed support for a funding extension. In addition, the Budget includes an extension through CY2016 of the Medicaid primary care payment increase included in the ACA.

###

Avalere continues to analyze federal budget proposals and their impact on the healthcare industry. Experts are available for comment. Please contact Amy Martin Vogt or (202) 999-7127 if you would like to speak with an expert at Avalere.

Avalere Health is a strategic advisory company whose core purpose is to create innovative solutions to complex healthcare problems. Based in Washington, D.C., the firm delivers actionable insights, business intelligence tools and custom analytics for leaders in healthcare business and policy. Avalere's experts span 180 staff drawn from Fortune 500 healthcare companies, the federal government (e.g., CMS, OMB, CBO and the Congress), top consultancies and nonprofits. The firm offers deep substance on the full range of healthcare business issues affecting the Fortune 500 healthcare companies. Avalere's focus on strategy is supported by a rigorous, in-house analytic research group that uses public and private data to generate quantitative insight. Through events, publications and interactive programs, Avalere insights are accessible to a broad range of customers. For more information, visit avalere.com, or follow us on Twitter @avalerehealth.