



## MEMORANDUM

**TO:** WSC Clients

**FROM:** Washington Strategic Consulting, Inc.

**DATE:** May 23, 2017

**RE:** President Trump FY 2018 Budget Overview

---

### Introduction

The Trump administration this morning unveiled its FY 2018 budget proposal, which includes **\$3.6 trillion** in federal budget cuts intended to balance the federal budget within 10 years. The proposal, *A New Foundation for American Greatness*, includes **\$1.4 trillion** in cuts to nondefense discretionary spending and a **\$1.7 trillion** reduction in mandatory spending over the next decade.

The proposed budget assumes full passage of the House-passed version of the American Health Care Act (AHCA), which cuts **\$839 billion** from the Medicaid program over 10 years. The budget would cut an additional **\$610 billion** from Medicaid by transitioning the program from a traditional entitlement to either a block grant program or a per-capita cap program that puts a ceiling on federal Medicaid funding to states. The White House also anticipates that repealing and replacing Obamacare would save roughly **\$250 billion** over the next 10 years. The budget does not make cuts to Medicare or Social Security.

### Health Care Legislative Proposals

**Medicare:** The Budget does not include any direct Medicare cuts. The only significant changes to the Medicare program include proposals to repeal the Independent Payment Advisory Board (\$7.6 billion in costs over 10 years) and increased funding (\$1.3 billion over ten years) to address the pending Medicare appeals backlog. The budget also requests \$751 million in discretionary Health Care Fraud and Abuse Control funding, \$70 million above the FY 2016 enacted level.

**Medicaid:** The proposal would cap Medicaid's federal funding for the first time, saving the federal government \$610 billion over 10 years. States would receive fixed funding from the federal government with new flexibility to administer their Medicaid programs. This reduction is in addition to the \$839 billion in reductions under the AHCA. The budget would also allow states to impose work requirements for certain Medicaid beneficiaries to reduce costs.

**Children's Health Insurance Program (CHIP):** The budget extends CHIP for two years (through FY 2019), and reduces funding for the program by \$5.8 billion over 10 years. The proposal ends the 23 percent increase in the enhanced Federal match rate and the current law maintenance of effort requirement after FY 2017. It would also cap the level at which states could receive the CHIP enhanced Federal matching rate at 250 percent of the Federal Poverty Level.

**National Institutes of Health:** The administration would cut the overall National Institutes of Health budget for FY 2018 from \$31.8 billion to \$26 billion – a reduction of nearly 20 percent. This comes just weeks after Congress gave the agency a \$2 billion boost in its 2017 spending bill.

- The National Cancer Institute: \$1 billion cut
- The National Heart, Lung and Blood Institute: \$575 million cut
- The National Institute of Allergy and Infectious Diseases: \$838 million cut

**Centers for Disease Control and Prevention:** Reduces CDC funding by \$1.3 billion in FY 2018, but includes a \$500 million “America’s Health” block grant intended to help states respond to public health threats. The proposal also decreases by funding for chronic disease prevention and health promotion activities \$222 million in FY 2018.

**Substance Abuse and Mental Health Services Administration:** The budget would allocate \$500 million to expand access to treatments, including medication-assisted treatment, for those suffering from opioid addiction (a continuation of 2017 levels). However, substance abuse treatment grants for states would fall by \$73 million and public awareness programs would decline by \$74 million in FY 2018.

**Food and Drug Administration:** The budget calls for drug and medical device companies to have greater flexibility to communicate about their products with payers before they hit the market. While the proposal does not specifically mention off-label communication, it implies that drug or device companies would be able to speak about uses for their products not already specified on an FDA-approved label. The budget also calls for “clarifying the treatment of value-based purchasing arrangements,” though it lacks detail on how this would be accomplished.

**Agency for Healthcare Research and Quality:** The budget consolidates AHRQ into NIH and reduces or eliminates “lower-priority” programs that overlap with activities administered by other components of HHS.

**Direct Primary Care:** HHS will explore opportunities for states and providers to further expand Direct Primary Care.

**Medical Liability:** Includes new limits on medical malpractice lawsuits, expected to reduce the practice of “defensive medicine,” saving Medicare \$31 billion over 10 years. Specifically, the Budget proposes the following medical liability reforms:

- Capping awards for noneconomic damages at \$250,000 indexed to inflation;
- Providing safe harbors for providers based on clinical standards;
- Authorizing the Secretary to provide guidance to States to create expert panels and administrative health care tribunals;
- Allowing evidence of a claimants’ income from other sources such as workers compensation and auto insurance to be introduced at trial;
- Providing for a three-year statute of limitations;
- Allowing courts to modify attorney’s fee arrangements;
- Establishing a fair-share rule to replace the current rule of joint and several liability;
- Excluding provider expressions of regret or apology from evidence; and
- Requiring courts to honor a request by either party to pay damages in periodic payments for any award equaling or exceeding \$50,000.

## **Major Assumptions**

- Assumes passage of the American Health Care Act, which faces strong moderating forces in the Senate.
- Assumes President Trump can sign into law a revenue neutral tax reform package.
- Assumes the annual economic growth rate will increase to 3 percent from the currently projected 1.9 percent.

## **Outlook**

Presidential budgets are aspirational political documents. The president's annual budget – regardless of party affiliation – routinely faces challenges on Capitol Hill, as lawmakers jealously guard their prerogative to control federal spending and shape government programs. President Trump's budget, in particular, faces long odds, with Democrats uniformly opposed and many Republicans already showing themselves to be squeamish about some of the president's plans. While the budget proposal itself has little chance of becoming law, the annual budget proposal serves as a starting point for negotiations and as a messaging document for the president and his party.

---