

Fiscal standoff could cause financial pain for health care

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Hospitals, physicians and researchers brace for fallout from mandated spending cuts.

(HealthDay)—"Sequestration" is Washington-speak for the approximately \$85 billion in annual federal spending cuts mandated by the Budget Control Act of 2011. Those cuts were originally set to take effect on Jan. 1, but were delayed in the deal to avert the so-called "fiscal cliff" of tax increases and budget reductions.

But those cuts are set to kick in Friday, with spending reductions coming to a wide range of areas and programs, including health care, defense, education, air travel and agriculture.

Portions of health care and related programs would be somewhat unscathed—for instance Medicaid, the government-run insurance program for poorer Americans, would be left untouched.

But experts point to three key areas that health-care consumers should be concerned about, not just in the days ahead but as Congressional Republicans and President [Barack Obama](#) continue to wrangle over the budget for the next fiscal year starting in October:

- Hospitals: Decreases in [Medicare reimbursement](#) for hospitals and skilled nursing facilities are set to total nearly \$4.5 billion, or about \$1.3 million for the average facility. Such cuts are expected to result in layoffs, especially of nurses, who represent the largest percentage of employees in hospitals.
- Physicians: Medicare payments to doctors could drop by as much as 3 percent to 4 percent, according to some estimates, totaling about \$4.1 billion. The reduction in revenue could be the last straw for frustrated physicians who may stop accepting [Medicare patients](#)—who tend to be 65 or older—or decide to retire a little sooner than they had planned.
- Research: Federal agencies such as the U.S. National Institutes of Health (NIH), the National Science Foundation, the U.S. [Food and Drug Administration](#) (FDA) and the U.S. [Centers for Disease Control and Prevention](#) (CDC) are each facing funding cuts of about 5 percent, or about \$2.5 billion in all. The reductions could slow FDA reviews of proposed [new drugs](#) and medical devices, for example, and curtail some services at the CDC—such as infection control and immunization. The real impact on research projects, which are typically long-term efforts, is harder to estimate.

While the mandated budget cuts are threatening in the short run, experts said the real challenge lies down the road. For instance, the combination of an increasingly tight federal budget and the growing number of retiring baby boomers could bring the financial challenges facing Medicare—the government-run insurance program for older

Americans—to a whole new level.

"The real issue that the public should be concerned about is, what do the president and Congress plan to do next [fiscal] year, Oct. 1? They're twiddling their thumbs right now and what we need is a functioning government," said Joseph Antos, a health policy expert with the American Enterprise Institute in Washington, D.C.

Some predict measurable fallout from the budget cuts as soon as the next few weeks.

Hospitals

The nation's 3,500 hospitals are reimbursed largely by Medicare; Medicaid, the government-run insurance program for lower-income Americans; and private insurance. But only Medicare payments would be affected by the anticipated budget cuts.

Yet some say the showdown between Obama and Republicans in Congress could cause a sea change in the federal government's approach to reimbursing hospitals.

"We now [face] a situation where the reimbursement rate-setting process is heavily impacted by deficit-reduction strategies," said Ken Perez, director of healthcare policy and marketing at MedeAnalytics, a health-care performance management firm in Emeryville, Calif. "In the old days, payments weren't based on what the government could pay, but by what was considered fair."

Perez said the anticipated \$1.3 million reduction to the average hospital's revenue by the mandated cuts would likely lead to a loss of about 25 full-time positions. He added that already—between last October and January—60 hospitals that he knows of have laid off employees.

"There's a clear relationship between any suspected reductions [in revenue] and laying off people," he said.

Henry Aaron, a senior fellow at the Brookings Institution, in Washington, D.C., agrees. "Hospital margins are typically quite small and with some exceptions, there will be some institutions so close to the edge already this will put them in a state of crisis."

Physicians

Doctors would be reimbursed at 98 cents on the dollar for their services to Medicare beneficiaries if the cuts go through. While that may sound like a small reduction in payment, Dr. Jeremy Lazarus, president of the American Medical Association, is worried.

"Since 2001, [Medicare payments](#) for physician services have only increased by 4 percent, while the cost of caring for patients has increased by more than 20 percent. A 2 percent cut would only widen this already enormous gap between what Medicare pays and the cost of providing care to seniors," said Lazarus, a private-practice psychiatrist in Denver.

Aaron framed the problem facing physicians who treat Medicare patients in simple terms.

"A doctor's income is the difference between expense and revenue," he said. "If you're running an office with expensive equipment that you're making payments on, and a large staff to whom you have obligations, you feel the impact."

Research

The U.S. National Institutes of Health, the National Science Foundation, the FDA and the CDC represent only a fraction of the total research effort in the United States. But the mandated cuts to these agencies could lead to potential delays in research funding and slowdowns in particular projects at critical junctures, according to Dr. Francis Collins, director of the NIH.

In a conference call with reporters, Collins said the cuts could affect areas of research that include cancer, Alzheimer's disease, a universal influenza vaccine that would cover all flu strains, and the brain activity map mentioned by Obama in his State of the Union speech this month.

Collins anticipates some negative consequences to work being done at the NIH. He said it would be difficult to apply 5.1 percent cuts—or \$1.56 billion—to the seven months left in this fiscal year. "Science is best supported in the circumstances in which you have a stable trajectory where you can plan month to month," he said. "It's a time of extraordinary scientific progress and extraordinary debt."

Antos, of the American Enterprise Institute, said consumers shouldn't worry that scientific research will stop immediately due to relatively small trims to a federally supported research agency such as the NIH: "There is plenty that is not financed by the federal government alone. Remember that the NIH sponsors somewhat theoretical [long-term] research. They're still going to run with the projects they've got going."

Still, Mary Woolley, president and CEO of Research!America, a Washington, D.C., nonprofit group that supports medical and scientific research, thinks research needs to be given a much higher public priority. "Those that feel that [the budget cuts] are just a paper cut are misinformed. It's a serious self-inflicted wound," she said. "If we don't continue to robustly fund the research and evidence base that will help us get a handle on escalating health-care costs, we could bankrupt the

nation."

Woolley said Congress has to start focusing on big-ticket items such as Medicare and Medicaid that have a huge impact on health care. "The sequester is a side show compared to what really needs to happen: tax reform and entitlement reform. People know both of these need work, and they're hard, but that's the job [our representatives] are elected to work on," she said.

More information: For more information about health-care costs, visit the [Kaiser Family Foundation](#).

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