



POLICY UPDATE

ON FY 2006 BUDGET RECONCILIATION BILLS

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What Budget Reconciliation means for Indian Health Programs

Portland, OR — The Senate on December 21st considered the budget reconciliation bill conference report passed by the House two days earlier. The House vote was 212-206, with nine Republicans joining unanimous Democrats in opposing the bill. During Senate consideration, three provisions were dropped from the bill as a result of a point of order prohibiting the inclusion of non-budgetary provisions in the legislation. Although the Senate then voted to approve the legislation by a 51-50 margin, with the Vice President breaking a tie, the version approved by the Senate now differs from the conference report approved by the House. As a result, the legislation cannot be enacted without another vote by the House.

Budget reconciliation is a process that Congress may use to assure compliance with spending, revenue, and debt-limit levels when making appropriations to fund government activity. The Congressional Budget Act of 1974 established the reconciliation process to give Congress a means of addressing mandatory spending, which unlike discretionary spending, is not subject to regular annual review. The process starts in the budget resolution, which establishes deficit reduction targets for certain committees, and requires legislation to reduce rates of direct spending for programs in those committees' jurisdiction. This year's budget resolution included instructions for three bills – to cut \$34.7 billion in mandatory spending, to cut taxes by \$70 billion, and to raise the debt limit by \$781 billion.

The committees of jurisdiction have full authority to determine specific policy reforms and submit legislation as they judge appropriate, so long as they achieve the savings required. Indian health advocates were most concerned with the reconciliation instructions for the House Energy and Commerce and Senate Finance Committees, in which both were instructed to make deep cuts. The budget resolution instructed the Energy and Commerce Committee to cut spending on programs within its jurisdiction by \$14.7 billion over five years; the Finance Committee was to cut \$10 billion on its programs over the same period. The initial discussion when budget reconciliation began was that Congress would make at least \$10 billion in cuts in the Medicaid program. The conference report cuts Medicaid by \$6.9 billion over five years. This cut is less than the \$11 billion in cuts that were proposed in the House bill, but more than the \$6.1 billion in the Senate bill.

Negative effect on Indian health programs

The Conference Report reduces access to services by allowing states to impose increased cost-sharing and premiums that will have a detrimental effect on Indian health programs. States will be able to charge coinsurance payments as high as 10 to 20 percent of the cost of the medical service or drug. States could, for the first time, let providers turn away someone who needs care

if the beneficiary cannot afford the co-payment. The rationale for charging co-payments and premiums is to achieve a more appropriate utilization of Medicaid covered services. The proposed changes will have a very harmful effect on the Indian health system. Indian participation in Medicaid is already low and the changes will have an adverse effect on future participation. The financial barriers of having to pay premiums and co-payments will simply mean that Indian people will quit enrolling in Medicaid. Why should they when they can receive their health services from the Indian Health Service (IHS) at no cost? The decreases in Medicaid enrollment will deprive chronically under-funded Indian health programs of vital Medicaid revenues.

The imposition of **co-pays** will not change utilization habits of Indian Medicaid beneficiaries because IHS and Tribal providers do not charge co-pays to their Indian patients. Co-pay amounts would be *cost-shifted* to the Indian health programs, causing a further reduction in the services they can offer, and reducing the resources that are used in the Contract Health Service program. These reductions in resources available to the Indian health system would decrease the health services they can provide and cause a further decline in the health status of Indian people.

The reconciliation package will also allow states to reduce benefits to children. The House bill would let states remove standards for Medicaid benefit packages, and the conference report extends this provision to all Medicaid children, meaning that all 28 million children on Medicaid could face benefit cuts. This authority would allow a state to reduce the amount, duration and scope of Medicaid benefits to many beneficiaries. Fortunately, the Senate package did not include a comparable provision. The Indian health system is funded at less than 60% of need and is heavily dependent on Medicaid payments, would be devastated by any reductions in Medicaid-covered services. While states receive 100% FMAP for Medicaid services provided in an IHS or Tribal facility, those facilities have limited capabilities and are not able to directly supply all needed care. When the IHS or tribal facility must refer an Indian Medicaid beneficiary to a private or public provider, the state must pay the regular state Medicaid match. Thus, states have an incentive to limit the benefits that Indians referred to outside providers would receive under the state Medicaid plan.

Reconciliation increases Deficit and threatens Indian health programs

The objective of reconciliation was to get a handle on spending however it will actually have the opposite effect. The process will couple increased spending with even larger tax cuts, producing a net increase in the deficit. This year's budget resolution called for \$106 billion in tax cuts over the next five years – with up to \$70 billion of these cuts protected under reconciliation procedures. The House actually passed tax cuts that exceeded the budget resolution marks and approved \$122 billion in tax relief. To finance these tax cuts, budget reconciliation cuts funding from critical programs like Medicaid. Although the impact of these Medicaid cuts might seem relatively small—\$6.9 billion—in the grand scheme of things, the effects will be severe for Indian health programs. The increases in cost-sharing and premiums, tightened asset rules governing eligibility for long-term care, and other benefit cuts will mean a reduction in health services for Indian people. Congress will take up reconciliation when it returns in January 2006.□