House Passes One, Big, Beautiful Bill Act

The House of Representatives narrowly passed its version of the budget reconciliation bill that will advance much of its legislative agenda. The "One, Big, Beautiful Bill Act" is the product of work by individual House committees to develop sections of the bill that achieve specific spending or savings targets outlined in the budget resolution that the House and Senate passed a few weeks ago.

The bill will now go to the Senate for consideration. The Senate is expected to pass changes to the bill which would necessitate further compromise between the House and Senate versions.

Before examining the specific tenets of the bill, it is important to note how this bill is being financed.

PAYGO Cuts Take Effect

Automatic "PAYGO" cuts take effect when a piece of legislation results in deficit spending (this bill is projected to do so by nearly $2.5 trillion). While PAYGO is intended to help partially offset deficit spending, Congress waives it in most instances. This being said, when in effect, PAYGO cuts impact Medicare payments to physicians first. This occurred in the aftermath of the American Rescue Plan Act in 2021.

In this reconciliation bill, the House did NOT waive PAYGO cuts from taking effect.

As currently written, this bill is projected to result in **$535 billion in physician payment Medicare cuts between 2026-2034, with $45 billion in 2026 alone**. This equals a 4% cut to physician Medicare payments annually.

The Senate can ultimately still waive PAYGO in their version of the bill. However, if the Senate fails to waive PAYGO in its version of the bill, Congress can still address it in an end-of-year package. However, that path is highly uncertain and particularly vulnerable to being derailed by unrelated policies included in a broader package.

Below is a summary of key provisions of the House version of the reconciliation bill that was advanced by the House Budget Committee.

Energy and Commerce Committee

The Energy and Commerce (E&C) Committee was instructed to develop a bill that saves $880 billion over ten years. This ambitious savings target suggested the bill would impact the Committee's largest areas of jurisdiction, including Medicare, Medicaid and other health programs.

As mentioned in the introduction, the policies summarized below could be changed in future compromises between the House and Senate.

- Medicare Payment Increase to Physicians

While the bill does not mitigate the 2.83% cut to Medicare payments for 2025, it would create a permanent annual inflationary update to physician Medicare payments.

In 2026, the bill would apply an increase equal to 75% of the Medicare Economic Index (MEI), which measures medical inflation. Beginning in 2027 and beyond, there would be an annual increase equal to 10% of MEI.

For context, inflation has outpaced updates to the Medicare Physician Fee Schedule (PFS) by 33% since 2001. MedPAC highlights that MEI was 4.0% in 2023 but is expected to gradually moderate to its pre-pandemic level of 1-2% per year.

The E&C Committee rejected an amendment from Rep. Alexandria Ocasio-Cortez (D-NY-14) that would have created a full MEI adjustment paid for by restricting how Medicare Advantage plans can "up code" their risk adjustment scores. The House Ways and Means (W&M) Committee rejected a similar amendment from Rep. Jimmy Panetta (D-CA-19).

The Medicare pay increase is not among the most controversial policies in the bill. However, its fate could still be impacted by those other controversial provisions. Increasing Medicare payments to clinicians increases overall government spending. Despite this spending increase, the E&C portion still achieves net savings of $880 billion over ten years. Some of the cost-savings policies are controversial because they could result in coverage reductions or impact state finances. If controversial cost-saving policies are removed from the bill once it reaches the Senate to assuage these concerns, the Medicare payment increase could also be removed to help offset the loss in savings.

- Medicaid Reforms

Most of the bill's $880 billion savings will come from changes to how the federal government subsidizes state Medicaid programs. The bill does not include some of the more drastic Medicaid funding reforms that had been discussed leading up to the markup. However, many of the Medicaid provisions remain controversial. Moderate Republicans caution against too many cuts while conservatives want more ambitious reforms.

Medicaid reforms in the bill include instituting work requirements for able-bodied adults aged 19-64 and increasing the frequency of eligibility redeterminations to at least every six months (currently, Medicaid eligibility checks occur annually). Medicaid work requirements will take effect in 2026.

Retroactive coverage would be limited to only one month prior to application, a reduction from the current 90-day requirement.

States would also need to more regularly screen providers to check if the Department of Health and Human Services (HHS) terminated their participation in Medicaid or if they are deceased.

- Provider Taxes

The bill would place new limits on state “provider taxes” that are used to increase federal Medicaid payments to states. Some states tax providers (in a variety of ways) to help finance the state’s share of their Medicaid costs. The federal match rate is based on the state’s total share, including what they collect in provider taxes. This practice is criticized because states receive federal funding for the portion of their costs that are already paid for by provider taxes. The bill would prohibit states from imposing new provider taxes or raising existing provider taxes.

- Expansion Population

Many of the provisions are focused on the Medicaid expansion population. Under the Affordable Care Act (ACA), states have the option to expand Medicaid coverage to people earning between 100-138% of the federal poverty level (FPL). The bill would require $35 per-service cost-sharing for many services for the expansion population. Cost-sharing remains capped at 5% of total income. The bill would also reduce the federal match rate for the expansion population if a state offers Medicaid-style health coverage for non-citizens and ends a higher federal match that is intended to incentivize new Medicaid expansion states.

- Nursing Homes

The bill would prohibit HHS from enforcing a Biden Administration final rule that established minimum staffing levels for nursing homes. Critics believe the minimums were not feasible for many nursing homes.

- Impact on Medicaid and ACA Coverage

While these policies will help achieve significant federal spending reductions, the Congressional Budget Office (CBO) estimates that over 10 million people will lose Medicaid coverage. Some of this coverage loss is due to a provision that would end automatic reenrollments for people with ACA coverage. Further, the bill does not extend enhanced eligibility for ACA premium assistance before these policies expire at the end of the year. This could result in an additional 4 million people losing coverage through the ACA.

- PBM Reforms

Reining in Pharmacy Benefit Managers (PBMs) has been among the most bipartisan issues in Congress. However, major PBM reform legislation has yet to pass.

The reconciliation bill would apply many of these bipartisan reforms to Medicaid. The bill bans “spread pricing” in Medicaid. PBMs use “spread pricing” to pocket the savings they achieve for insurers instead of passing these savings on to pharmacies, health plans and patients. The bill also increases PBM transparency for Medicare Part D plans, limits how PBMs can mark up their prices, and allows “any willing pharmacy” to participate with a PBM.

Ways and Means Committee

Some of the tax policies in this bill are temporary while others are permanent, each with varying implementation timelines. This memo summarizes select tax policy changes in the bill and does not cover every provision. Consult with an accountant to understand how these policies impact you or your business.

- SALT Deduction (and its impact on Medicaid changes)

One new tax policy would increase the State and Local Tax (SALT) deduction cap from its current $10,000 limit (for individual and joint filers) to $40,000 up to a $500,000 income limit. The SALT deduction allows individuals to deduct state taxes from their federal taxes up to the deduction cap.

Raising this cap from was a key priority for a group of moderate Republicans who represent districts with high state taxes. Importantly, raising the deduction cap substantially reduces the savings achieved by the reconciliation bill.

- Taxing College and University Endowments

The bill includes a significant tax increase for college and university endowments, which are currently taxed at 1.4%. The bill would increase this tax rate on a sliding scale based on endowment size up to a maximum of 21%.

- New Tax Policies

The bill extends the 2017 tax policies from the Tax Cuts and Jobs Act such as changes to individual and corporate income tax rates, estate tax limits and the child tax credit amount

Other notable new tax policies include:

    - Increasing the pass-through business deduction for qualified business income (QBI) from 20% to 23%.
    - Allowing immediate 100% business deduction for qualified property rather than spacing the deduction out over time.
    - Allowing deduction over overtime pay.
    - Increasing tax deductions for seniors.
    - Creating tax-free savings accounts for children, called Money Accounts for Growth and Advancement (MAGA) accounts. The government will deposit up to $1,000 per child when these accounts are established for children born between 2025 and 2028.
    - Allow HRA accounts to purchase Affordable Care Act (ACA) health insurance plans.
    - Corporations would need to contribute at least 1% of their income towards charitable deductions in order to earn the full tax deduction for charitable giving.
    - Expands the excise tax on highly compensated employees of tax-exempt organizations from the top five highest earners to any employee who earns over $1 million in income.

- Artificial Intelligence

One section of the Ways and Means Committee's portion of the reconciliation bill focused on communications policy included a provision that would significantly limit states from enforcing state AI regulations for ten years. The language is vague and key details are needed to fully understand the impact of this policy. However, the section appears intended to allow states to implement laws that *promote* the use of AI but prohibit states from enforcing laws that *restrict* the use of AI.

It is not clear if this provision can be included in the Senate's version of the reconciliation bill due to strict limitations that reconciliation bills only include provisions that impact federal spending or revenues. The Senate Parliamentarian would decide if this policy can be included if a Senator challenges the inclusion of this provision on these grounds.

Conclusion

Speaker Mike Johnson likened passing this bill in the House to "crossing the Grand Canyon on dental floss." The Senate must be extremely careful and mindful with changes it makes to its version of the bill in order for it to continue to progress.