Paragon: DOGE Could Cut $2.1 Trillion With Medicaid, Medicare Reforms

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President-elect Trump's new Department of Government Efficiency (DOGE) -- to be headed by Vivek Ramaswamy and Elon Musk -- could save $2.1 trillion over a decade by making changes to Medicaid and Medicare, Paragon Health Institute says.

The group says the estimated savings would be hundreds of billions of dollars greater if they included reduced interest payments from lower spending and if the Congressional Budget Office updated its calculations of older proposals.

The conservative think tank's hot-button proposals include limiting the federal contribution to state Medicaid programs, axing the Medicaid provider tax safe harbor, imposing Medicaid work requirements, rescinding the Biden administration's Medicaid rules, limiting Medigap cost-sharing, imposing Medicare site-neutral policies, boosting Medicare Advantage, eliminating, Medicare bad debt, reforming 340B, stopping the enhanced Affordable Care Act subsidies, and capping the tax exclusion for employer-sponsored health insurance.

"DOGE's efforts to reduce bureaucracy, fraud, waste, and abuse from government programs are long overdue," Paragon President Brian Blase said in a statement. "Paragon's recommendations offer practical and significant ways to achieve this goal."

Medicaid proposals

Limit federal funding to states

A March 2023 paper by Paragon president Brian Blase and Senior Policy Analyst Joe Albanese calls for the replacement of the open-ended reimbursement program for state Medicaid expenditures. According to Blase and Albanese, the program has resulted in "explosive Medicaid growth" and has given "states an incentive to create artificial expenditures … to obtain federal funds without actually putting up state dollars."

Remove provider tax safe harbor

Blase and Albanese also advocate for the removal of the Medicaid provider tax safe harbor exception, which allows states to use hold-harmless arrangements given the tax does not exceed 6 percent of a provider's net revenues from treating patients.

Ax FMAP floor

The paper suggests removing the federal Medicaid assistance percentage (FMAP) floor, which Blase and Albanese argue gives wealthier states a leg up as the floor guarantees these states "a relatively high level of funding." The Congressional Budget Office estimates removing the floor would affect 13 states and save $667 billion over 10 years, according to the paper.

Work requirements

Blase and Albanese would also like to see a requirement added for able-bodied, working-age Medicaid enrollees to engage in employment or community programs in order to be enrolled, something that the first Trump administration's fiscal 2021 budget proposed. They say CBO estimates the requirement would save approximately $221 billion.

"This would better focus Medicaid on those whom the program was intended to serve as well as improve communities and bring Medicaid into alignment with other federal public assistance programs that have similar requirements," the paper argues.

Reduce federal share of administrative costs

The paper argues the federal share of Medicaid administrative costs should be reduced to 50%, which CBO estimates would save the federal government about $68 billion.

"Such a change would likely reduce some administrative complexities and limit state gaming to move administrative expenses to areas that receive higher reimbursement," Blase and Albanese argue. "Given the large federal budget deficits and large state surpluses, such a change would be commonsense governing."

Rescind Biden administration's Medicaid rules

Paragon targets four Medicaid rules that CMS estimates cost the federal government between $68.5 billion and $134.8 billion over five years and states between $46.3 billion and $82.6 billion.

In a report published earlier this month, Paragon senior policy analyst Jackson Hammond advocates for rescinding the Expansion of State-Directed Payments Rule, which puts a ceiling on state-directed payments (SDPs) in managed care organizations (MCOs) in Medicaid, preventing MCOs from paying more than average commercial rates (ACRs) when SDPs are combined with the other Medicaid payments received by providers. Paragon argues the "rule advantages politically connected providers with increases in payments that will be mostly, if not entirely, covered by the federal government," and that it incentivizes providers to increase commercial rates.

Hammond believes the Maintaining Enrollment in Medicaid Rule should also be rescinded. This rule removes annual and lifetime coverage limits, as well as waiting periods, from CHIP. It also prohibits states from implementing lock-out periods for non-payment of premiums. As for Medicaid, the rule puts more restrictions and requirements on states regarding changes in eligibility and extends time for enrollees to verify changes in eligibility before redetermination and renewals. According to Hammond, the "rule will make it more difficult for states to discover if an individual is ineligible for government-financed coverage, thus resulting in more ineligible people on both Medicaid and CHIP enrolled for longer periods."

Hammond advocates for rescinding the Eligibility Expansion for Medicare Savings Plan Rule, which expands enrollment in Medicare Savings Programs (MSPs). This expansion is done through a variety of requirements for states, including requiring states to automatically enroll individuals receiving Supplemental Security Income in the MSP that pays for Part A premiums. Hammond says the rule "could further discourage individuals with the means to plan and save for late-in-life health expenses, leading them to rely on public safety-net programs instead."

The Nursing Home Staffing Mandate Rule should also be rescinded, Hammond argues. This rule requires long term care facilities to maintain a minimum ratio of nurse staffing hours per resident day (HPRD). Registered nurses must be onsite 24 hours a day, seven days a week, and facilities must provide a minimum of 0.55 registered nurse HPRD. Nurse aide coverage must be at least 2.45 HPRD, and total nurse staff coverage must exceed 3.48 HPRD. Hammond says the rule will increase facility costs due to hiring minimums and subsequent higher salaries needed to fill new positions.

Medicare changes

Limit Medigap plan cost sharing

The paper suggests restricting Medigap plans from covering cost-sharing to a certain point and limiting additional coverage at 50 percent up to a second threshold. Reforming this coverage, Blase and Albanese argue, will make Medicare beneficiaries less likely to purchase Medigap plans, which would redirect spending from Medigap premiums to ordinary fee-for-service cost-sharing.

Site-neutral reforms

Blase and Albanese support implementing site-neutral policies, such as applying physician rates to clinic visits and other common services in on-campus hospital outpatient departments and removing exemptions under the Bipartisan Budget Act of 2015.

Change uncompensated care funding and eliminate Medicare reimbursement of bad debt

They also suggest moving uncompensated care funding outside of Medicare, indexing it to inflation, and distributing it based on hospitals' share of charity care and non-Medicare bad debt; as well as eliminating Medicare reimbursement of bad debt. According to the paper, CBO estimates these budget proposals as saving $88 and $74 billion, respectively.

Make statutory changes to reduce payments for 340B drugs

Blase and Albanese argue for reforms to Medicare payments for drugs under 340B, which they say should be part of statute to avoid legal challenges. In 2017, CMS finalized a rule reducing Medicare payment for 340B drugs from 106 percent to 77.5 percent of average sales price, but the Supreme Court blocked the rule in 2022.

Boost use of Medicare Advantage

Another paper by Albanese suggests changes to Medicare Advantage (MA), including directing beneficiaries to choose between fee for service (FFS) and MA instead of automatically enrolling them in FFS.

The paper also supports capping MA benchmarks at 100% of local fee for service (FFS) costs outside areas with lower MA penetration and calculating benchmarks based on the FFS population with both Part A and Part B coverage, as well as ending quality bonuses for benchmarks and focusing star ratings on core health outcomes and patient experience.

Affordable Care Act reforms

Paragon says Congress can end ACA fraud by letting the enhanced insurer subsidies expire after 2025 and taking commonsense actions to verify applicants' information prior to enrollment.

Paragon has published research that favors a deregulatory health care approach in the exchanges, including expanding association health plans and protecting Americans' right to obtain coverage that best fits their needs.

The group specifically calls for setting a more flexible definition for health savings account eligible plans, removing barriers to individual coverage health reimbursement arrangements, no longer penalizing flexible spending arrangement holders, and placing limits on subsides, including ending the enhanced premium tax credit (PTC), capping PTC benchmarks at 125 percent of the national average, appropriating cost-sharing reduction payments, capping the tax exclusion for employer-sponsored health insurance at 125 percent of the national average, adjusted for the age of the workforce, and applying the self-employed health insurance deduction to the self-employment tax and capping at 125 percent of the national average.

Make reforms immediately.

Paragon points to a paper it published in January 2023 that argues to "avoid significant nominal spending reductions and other adverse consequences, federal policymakers must consider reforms to federal health programs immediately." Specifically, author Paul Winfree says federal spending on Medicare, Medicaid, CHIP, and the insurance subsidies should be reduced by at least 7.5 percent of baseline spending, or 0.5 percent of the economy, over the 2025 to 2034 budget window.

"DOGE should have a target rich environment in health policy given that so much of our health sector is characterized by inefficient bureaucracy, excessive regulations, and wasteful spending," Blase said.