FARRAGUT SQUARE GROUP

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Farragut's Five Healthcare Themes to Watch for in the First Year of the Trump Administration and 119th Congress

With the onset of the 119th Congress and the incoming Trump Administration, Farragut is reviewing what this means for healthcare. As the first installment in this series, Farragut breaks down the broad themes and key events could shape the initial year of the Trump Administration 2.0 and explores where healthcare fits into this agenda. Future notes will consider what the administration and Congress could mean on a sector-specific basis.

1. The expiration of a three-month continuing resolution in March sets up Congress to consider an appropriations package that could include healthcare riders.

2. While healthcare was not a focus of the last election, Farragut believes that healthcare could play a role in funding some of the Trump Administration's top priorities.

3. The end of the Chevron doctrine serves as a material guardrail against the Trump Administration.

4. The enhanced ACA subsidies are set to expire at the end of 2025, which will likely prompt a discussion on whether to allow them to expire or issue a limited extension as a rider in other legislation.

5. During this transition period, the Trump Administration has already identified who it would like to run the major healthcare-related agencies and has announced it will stand up a new entity tasked to eliminate wasteful spending called the Department of Government Efficiency (DOGE). Farragut believes these nominations will likely be confirmed by the Senate, and DOGE will be a vocal advisor.

Further Discussion:

1. The expiration of a three-month continuing resolution in March sets up Congress to consider an appropriations package that could include a number of healthcare riders.

The 118th Congress concluded with a chaotic series of negotiations to fund the government. While lawmakers initially reached a bipartisan, bicameral deal in a 1,500+ page package that included a number of healthcare riders, the deal fell apart after President-elect Trump voiced a desire for Congress to only fund a short three-month continuing resolution that was free of many riders.

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Accordingly, lawmakers will need to resume the larger conversation around appropriations and riders before the new CR expires mid-March.

The three-month CR excludes many of the initial healthcare provisions discussed in the lame duck – but it does maintain Medicare telehealth waivers for geographic and originating site through March 31, 2025, as well as three-months of funding for a handful of healthcare extenders such as ground ambulance, community health centers, and Medicaid Disproportionate Share Hospitals. Notably, the package also provided relief against the looming 4% PAYGO cut across Medicare by wiping clean the PAYGO scorecard.

In the March budget, Congress could consider not only extending the above provisions but also whether they should provide relief to the -2.8% cut to the Physician Fee Schedule (likely on a prospective basis, as they did in 2024). They may also consider whether to use the healthcare pay-fors that were negotiated in the initial lame duck proposal – including reform to Pharmacy Benefit Managers (e.g., increased transparency provisions, a ban on Medicaid spread pricing, and delinking of Medicare Part D), provisions to support generic competition against brand-name drugs (e.g., limiting patents on a single product, increasing transparency on Q1/Q2 assessments of inactive ingredients), and extension of the 2% Medicare sequester.

2. While healthcare was not a focus of the last election, Farragut believes that healthcare could play a role in funding some of the Trump Administration's top priorities.

With the Trump Administration set to take office in a few weeks, there has been much discussion in the press about how Republicans will fund Trump's top priorities, such as the extension of the Trump tax cuts, securing the southern border, and energy policies. These priorities are estimated to cost several trillion dollars. Since the new administration has promised not to cut Social Security or Medicare, Medicaid is likely to become a target.

The goal will be to reduce federal financing for the Medicaid program. There are two basic ways to achieve this: either reduce the flow of federal funds to states outright or restrict the revenues on which states can rely to qualify for federal funding. The administration can tackle Medicaid spending multiple ways, such as by: 1) placing an aggregate cap on federal spending (e.g., block grants); 2) eliminating the 90% funding enhancement available to ACA expansion states; 3) reducing the minimum federal contribution to state Medicaid expenditures below its historic 50%; 4) mandating work requirements for adults; 5) eliminating special federal payments to safety-net hospitals; and 6) tightening federal standards governing how states finance their share of program costs (e.g., provider taxes).

Where Medicaid legislative reform is concerned, there are four stakeholders at the negotiating table: the President, the Senate, the House, and Governors. All the proposals outlined by the administration so far would need congressional approval. Farragut believes that there are not enough votes in Congress to enact the Medicaid changes the Trump Administration is likely to propose. These are the same proposals that appeared in the first Trump Administration's attempt to repeal and replace the ACA and were the main reason the bill never crossed the finish line.

3. The end of the Chevron doctrine serves as a material guardrail against the Trump Administration.

With a narrowly divided Congress, Farragut expects that the Trump Administration may be forced to look at implementing policy priorities – including healthcare – via administrative action rather than congressional. As an analogue, Trump frequently utilized Executive Orders during his first term (issuing 220, which outpaced Biden’s 154 and Obama’s 148). His use of Executive Orders to direct agencies’ healthcare reforms was highlighted in his last year in office, including efforts to tie Medicare payments to other countries and to allow importation of drugs from Canada.

However, Farragut underscores that the Trump Administration's ability to enact meaningful reform through agency or executive action is limited by the recent fall of the Chevron doctrine. The end of Chevron means that courts no longer must defer to an agency’s expertise to interpret ambiguous statute – accordingly, legal challenges against administrative action will likely be more prolific and potentially successful as action will have to clear the high bar of being nested in statutory authority, considering congressional intent, and avoiding novel interpretation of existing laws.

4. The enhanced ACA subsidies are set to expire at the end of 2025, which will likely prompt a discussion on whether to allow them to expire or issue a limited extension as a rider in other legislation.

The ACA marketplace and enrollment levels are currently benefitting from enhanced subsidies, which were initially created in the American Rescue Plan and extended under the Inflation Reduction Act. These subsidies benefit both lower- and higher-income individuals by increasing the level of subsidies for those already eligible (100-400% FPL) and providing subsidies for those with incomes above 400% FPL. Of note, while enhanced subsidies for the 400% FPL group are the most controversial, this group accounts for only ~7% of those enrolled and thus the majority of subsidies are benefitting those in the lower income buckets.

The enhanced subsidies have coincided with record-breaking open enrollment numbers, and if subsidies expire at the end of 2025, there could be a significant drop off in enrollment in 2026 (open enrollment currently stands at nearly 24M, compared to 11.4 million prior to 2021). While conventional wisdom suggests that Republican lawmakers are not supportive of the ACA and the enhanced subsidies, it’s important to note that Republican-leaning states—including those that have not expanded Medicaid—have become increasingly reliant on the subsidies. Accordingly, Farragut believes there is a narrow pathway for the enhanced subsidies to be extended. This could potentially come as a provision of dealmaking during the broader tax bill discussion and would likely include some revisions, such as cutting out subsidies for higher income groups.

5. During this transition period, the Trump Administration has already identified who it would like to run the major healthcare-related agencies and has announced it will stand up a new entity tasked to eliminate wasteful spending called the Department of Government Efficiency (DOGE). Farragut believes these nominations will likely be confirmed by the Senate, and DOGE will be a vocal advisor.

At the time of publication, Farragut believes the Senate will confirm the slate of healthcare nominations proposed by President-elect Trump, including Robert F. Kennedy, Jr. for HHS Secretary and Dr. Mehmet Oz for CMS Administrator. Farragut believes there are more high-profile nominations that senators are likely to oppose (e.g., Pete Hegseth, Kash Patel, and Tulsi Gabbard), which makes both Kennedy and Oz easier and more palatable for senators to confirm.

Kennedy has been focused on food and nutrition, ending the chronic disease epidemic, alternative health treatments, vaccination policies, and fluoridation of drinking water. Many of Kennedy's more controversial stances, such as his views on vaccination policies and water fluoridation, are issues typically handled by state and local entities – rather than the federal government. Also, FDA policies focused on alternative health treatments and vaccination approvals have a lengthy, longstanding framework, which involves rulemaking process and extensive collaboration – making the reality of these changes ripe with significant legal and procedural hurdles.

Oz has previously touted Medicare Advantage (MA). As CMS Administrator, Oz would have significant power over MA, including plan reimbursements. At one point in his career, Oz promoted the idea of enrolling most Americans in MA plans as a path toward universal health insurance. Farragut does not believe this will be on Oz's agenda or President-elect Trump's, but rather illustrates Oz's support for the program.

Since the announcement of the Department of Government Efficiency (DOGE) and its leaders, Elon Musk and Vivek Ramaswamy have been making waves in the press with ideas on what government spending needs to be cut and what programs and regulations should be eliminated. This focus on government inefficiencies is likely to continue throughout the Trump Administration. While DOGE can shine a bright light on certain inefficiencies within the government, it's ultimately the agencies that create or rescind regulations and Congress that appropriates funding. Any recommendations from DOGE will need broad stakeholder support to become a reality.

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