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H. R. 4872

One Hundred Eleventh Congress of the United States of America

AT THE SECOND SESSION

Begun and held at the City of Washington on Tuesday, the fifth day of January, two thousand and ten

An Act

To provide for reconciliation pursuant to Title II of the concurrent resolution on the budget for fiscal year 2010 (S. Con. Res. 13).

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Health Care and Education Reconciliation Act of 2010".

(b) TABLE OF CONTENTS.—The table of contents of this Act is as follows:

Sec. 1. Short title; table of contents.

TITLE I—COVERAGE, MEDICARE, MEDICAID, AND REVENUES

Subtitle A—Coverage

Sec. 1001. Tax credits.
Sec. 1002. Individual responsibility.
Sec. 1003. Employer responsibility.
Sec. 1004. Income definitions.
Sec. 1005. Implementation funding.

Subtitle B—Medicare

Sec. 1101. Closing the medicare prescription drug "donut hole".
Sec. 1102. Medicare Advantage payments.
Sec. 1103. Savings from limits on MA plan administrative costs.
Sec. 1104. Disproportionate share hospital (DSH) payments.
Sec. 1105. Market basket updates.
Sec. 1106. Physician ownership-referral.
Sec. 1107. Payment for imaging services.
Sec. 1108. PE GPCI adjustment for 2010.
Sec. 1109. Payment for qualifying hospitals.

Subtitle C—Medicaid

Sec. 1201. Federal funding for States.
Sec. 1202. Payments to primary care physicians.
Sec. 1203. Disproportionate share hospital payments.
Sec. 1204. Funding for the territories.
Sec. 1205. Delay in Community First Choice option.
Sec. 1206. Drug rebates for new formulations of existing drugs.

Subtitle D—Reducing Fraud, Waste, and Abuse

Sec. 1301. Community mental health centers.
Sec. 1302. Medicare prepayment medical review limitations.
Sec. 1303. Funding to fight fraud, waste, and abuse.
Sec. 1304. 90-day period of enhanced oversight for initial claims of DME suppliers.

Subtitle E—Provisions Relating to Revenue

Sec. 1401. High-cost plan excise tax.
Sec. 1402. Unearned income Medicare contribution.
Sec. 1403. Delay of limitation on health flexible spending arrangements under cafeteria plans.

Sec. 1404. Brand name pharmaceuticals.
Sec. 1405. Excise tax on medical device manufacturers.
Sec. 1406. Health insurance providers.
Sec. 1407. Delay of elimination of deduction for expenses allocable to medicare part D subsidy.
Sec. 1408. Elimination of unintended application of cellulosic biofuel producer credit.
Sec. 1409. Codification of economic substance doctrine and penalties.
Sec. 1410. Time for payment of corporate estimated taxes.

Subtitle F—Other Provisions

Sec. 1501. Community college and career training grant program.

TITLE II—EDUCATION AND HEALTH

Subtitle A—Education

Sec. 2001. Short title; references.

PART I—INVESTING IN STUDENTS AND FAMILIES

Sec. 2101. Federal Pell Grants.
Sec. 2102. College access challenge grant program.
Sec. 2103. Investment in historically black colleges and universities and minority-serving institutions.

PART II—STUDENT LOAN REFORM

Sec. 2201. Termination of Federal Family Education Loan appropriations.
Sec. 2202. Termination of Federal loan insurance program.
Sec. 2203. Termination of applicable interest rates.
Sec. 2204. Termination of Federal payments to reduce student interest costs.
Sec. 2205. Termination of FFEL PLUS Loans.
Sec. 2206. Federal Consolidation Loans.
Sec. 2207. Termination of Unsubsidized Stafford Loans for middle-income borrowers.
Sec. 2208. Termination of special allowances.
Sec. 2209. Origination of Direct Loans at institutions outside the United States.
Sec. 2210. Conforming amendments.
Sec. 2211. Terms and conditions of loans.
Sec. 2212. Contracts; mandatory funds.
Sec. 2213. Income-based repayment.

Subtitle B—Health

Sec. 2301. Insurance reforms.
Sec. 2302. Drugs purchased by covered entities.
Sec. 2303. Community health centers.

TITLE I—COVERAGE, MEDICARE, MEDICAID, AND REVENUES

Subtitle A—Coverage

SEC. 1001. TAX CREDITS.

(a) PREMIUM TAX CREDITS.—Section 36B of the Internal Revenue Code of 1986, as added by section 1401 of the Patient Protection and Affordable Care Act and amended by section 10105 of such Act, is amended—

(1) in subsection (b)(3)(A)—

(A) in clause (i), by striking "with respect to any taxpayer" and all that follows up to the end period and inserting: "for any taxable year shall be the percentage such that the applicable percentage for any taxpayer whose household income is within an income tier specified in the following table shall increase, on a sliding scale in a linear manner, from the initial premium percentage to

the final premium percentage specified in such table for such income tier:

"In the case of household income (expressed as a percent of poverty line) within the following income tier:	The initial premium percentage is—	The final premium percentage is—
Up to 133%	2.0%	2.0%
133% up to 150%	3.0%	4.0%
150% up to 200%	4.0%	6.3%
200% up to 250%	6.3%	8.05%
250% up to 300%	8.05%	9.5%
300% up to 400%	9.5%	9.5%"; and

(B) by striking clauses (ii) and (iii), and inserting the following:

"(ii) INDEXING.—

"(I) IN GENERAL.—Subject to subclause (II), in the case of taxable years beginning in any calendar year after 2014, the initial and final applicable percentages under clause (i) (as in effect for the preceding calendar year after application of this clause) shall be adjusted to reflect the excess of the rate of premium growth for the preceding calendar year over the rate of income growth for the preceding calendar year.

"(II) ADDITIONAL ADJUSTMENT.—Except as provided in subclause (III), in the case of any calendar year after 2018, the percentages described in subclause (I) shall, in addition to the adjustment under subclause (I), be adjusted to reflect the excess (if any) of the rate of premium growth estimated under subclause (I) for the preceding calendar year over the rate of growth in the consumer price index for the preceding calendar year.

"(III) FAILSAFE.—Subclause (II) shall apply for any calendar year only if the aggregate amount of premium tax credits under this section and cost-sharing reductions under section 1402 of the Patient Protection and Affordable Care Act for the preceding calendar year exceeds an amount equal to 0.504 percent of the gross domestic product for the preceding calendar year."; and

(2) in subsection (c)(2)(C)—

(A) by striking "9.8 percent" in clauses (i)(II) and (iv) and inserting "9.5 percent"; and

(B) by striking "(b)(3)(A)(iii)" in clause (iv) and inserting "(b)(3)(A)(ii)".

(b) COST SHARING.—Section 1402(c) of the Patient Protection and Affordable Care Act is amended—

(1) in paragraph (1)(B)(i)—

(A) in subclause (I), by striking "90" and inserting "94";

(B) in subclause (II)—

(i) by striking "80" and inserting "87"; and

(ii) by striking "and"; and

(C) by striking subclause (III) and inserting the following:

"(III) 73 percent in the case of an eligible insured whose household income is more than 200 percent but not more than 250 percent of the poverty line for a family of the size involved; and

"(IV) 70 percent in the case of an eligible insured whose household income is more than 250 percent but not more than 400 percent of the poverty line for a family of the size involved."; and

(2) in paragraph (2)—

(A) in subparagraph (A)—

(i) by striking "90" and inserting "94"; and

(ii) by striking "and";

(B) in subparagraph (B)—

(i) by striking "80" and inserting "87"; and

(ii) by striking the period and inserting "; and"; and

(C) by inserting after subparagraph (B) the following new subparagraph:

"(C) in the case of an eligible insured whose household income is more than 200 percent but not more than 250 percent of the poverty line for a family of the size involved, increase the plan's share of the total allowed costs of benefits provided under the plan to 73 percent of such costs.".

SEC. 1002. INDIVIDUAL RESPONSIBILITY.

(a) AMOUNTS.—Section 5000A(c) of the Internal Revenue Code of 1986, as added by section 1501(b) of the Patient Protection and Affordable Care Act and amended by section 10106 of such Act, is amended—

(1) in paragraph (2)(B)—

(A) in the matter preceding clause (i), by—

(i) inserting "the excess of" before "the taxpayer's household income"; and

(ii) inserting "for the taxable year over the amount of gross income specified in section 6012(a)(1) with respect to the taxpayer" before "for the taxable year";

(B) in clause (i), by striking "0.5" and inserting "1.0";

(C) in clause (ii), by striking "1.0" and inserting "2.0"; and

(D) in clause (iii), by striking "2.0" and inserting "2.5"; and

(2) in paragraph (3)—

(A) in subparagraph (A), by striking "$750" and inserting "$695";

(B) in subparagraph (B), by striking "$495" and inserting "$325"; and

(C) in subparagraph (D)—

(i) in the matter preceding clause (i), by striking "$750" and inserting "$695"; and

(ii) in clause (i), by striking "$750" and inserting "$695".

(b) THRESHOLD.—Section 5000A of such Code, as so added and amended, is amended—

(1) by striking subsection (c)(4)(D); and

(2) in subsection (e)(2)—

(A) by striking "UNDER 100 PERCENT OF POVERTY LINE" and inserting "BELOW FILING THRESHOLD"; and

(B) by striking all that follows "less than" and inserting "the amount of gross income specified in section 6012(a)(1) with respect to the taxpayer.".

SEC. 1003. EMPLOYER RESPONSIBILITY.

(a) PAYMENT CALCULATION.—Subparagraph (D) of subsection (d)(2) of section 4980H of the Internal Revenue Code of 1986, as added by section 1513 of the Patient Protection and Affordable Care Act and amended by section 10106 of such Act, is amended to read as follows:

"(D) APPLICATION OF EMPLOYER SIZE TO ASSESSABLE PENALTIES.—

"(i) IN GENERAL.—The number of individuals employed by an applicable large employer as full-time employees during any month shall be reduced by 30 solely for purposes of calculating—

"(I) the assessable payment under subsection (a), or

"(II) the overall limitation under subsection (b)(2).

"(ii) AGGREGATION.—In the case of persons treated as 1 employer under subparagraph (C)(i), only 1 reduction under subclause (I) or (II) shall be allowed with respect to such persons and such reduction shall be allocated among such persons ratably on the basis of the number of full-time employees employed by each such person.".

(b) APPLICABLE PAYMENT AMOUNT.—Section 4980H of such Code, as so added and amended, is amended—

(1) in the flush text following subsection (c)(1)(B), by striking "400 percent of the applicable payment amount" and inserting "an amount equal to 1/12 of $3,000";

(2) in subsection (d)(1), by striking "$750" and inserting "$2,000"; and

(3) in subsection (d)(5)(A), in the matter preceding clause (i), by striking "subsection (b)(2) and (d)(1)" and inserting "subsection (b) and paragraph (1)".

(c) COUNTING PART-TIME WORKERS IN SETTING THE THRESHOLD FOR EMPLOYER RESPONSIBILITY.—Section 4980H(d)(2) of such Code, as so added and amended and as amended by subsection (a), is amended by adding at the end the following new subparagraph:

"(E) FULL-TIME EQUIVALENTS TREATED AS FULL-TIME EMPLOYEES.—Solely for purposes of determining whether an employer is an applicable large employer under this paragraph, an employer shall, in addition to the number of full-time employees for any month otherwise determined, include for such month a number of full-time employees determined by dividing the aggregate number of hours of service of employees who are not full-time employees for the month by 120.".

(d) ELIMINATING WAITING PERIOD ASSESSMENT.—Section 4980H of such Code, as so added and amended and as amended by the preceding subsections, is amended by striking subsection (b) and redesignating subsections (c), (d), and (e) as subsections (b), (c), and (d), respectively.

SEC. 1004. INCOME DEFINITIONS.

(a) MODIFIED ADJUSTED GROSS INCOME.—

(1) IN GENERAL.—The following provisions of the Internal Revenue Code of 1986 are each amended by striking "modified gross" each place it appears and inserting "modified adjusted gross":

(A) Clauses (i) and (ii) of section 36B(d)(2)(A), as added by section 1401 of the Patient Protection and Affordable Care Act.

(B) Section 6103(l)(21)(A)(iv), as added by section 1414 of such Act.

(C) Clauses (i) and (ii) of section 5000A(c)(4), as added by section 1501(b) of such Act.

(2) DEFINITION.—

(A) Section 36B(d)(2)(B) of such Code, as so added, is amended to read as follows:

"(B) MODIFIED ADJUSTED GROSS INCOME.—The term 'modified adjusted gross income' means adjusted gross income increased by—

"(i) any amount excluded from gross income under section 911, and

"(ii) any amount of interest received or accrued by the taxpayer during the taxable year which is exempt from tax.".

(B) Section 5000A(c)(4)(C) of such Code, as so added, is amended to read as follows:

"(C) MODIFIED ADJUSTED GROSS INCOME.—The term 'modified adjusted gross income' means adjusted gross income increased by—

"(i) any amount excluded from gross income under section 911, and

"(ii) any amount of interest received or accrued by the taxpayer during the taxable year which is exempt from tax.".

(b) MODIFIED ADJUSTED GROSS INCOME DEFINITION.—

(1) MEDICAID.—Section 1902 of the Social Security Act (42 U.S.C. 1396a) is amended by striking "modified gross income" each place it appears in the text and headings of the following provisions and inserting "modified adjusted gross income":

(A) Paragraph (14) of subsection (e), as added by section 2002(a) of the Patient Protection and Affordable Care Act.

(B) Subsection (gg)(4)(A), as added by section 2001(b) of such Act.

(2) CHIP.—

(A) STATE PLAN REQUIREMENTS.—Section 2102(b)(1)(B)(v) of the Social Security Act (42 U.S.C. 1397bb(b)(1)(B)(v)), as added by section 2101(d)(1) of the Patient Protection and Affordable Care Act, is amended by striking "modified gross income" and inserting "modified adjusted gross income".

(B) PLAN ADMINISTRATION.—Section 2107(e)(1)(E) of the Social Security Act (42 U.S.C. 1397gg(e)(1)(E)), as added by section 2101(d)(2) of the Patient Protection and Affordable Care Act, is amended by striking "modified gross income" and inserting "modified adjusted gross income".

(c) NO EXCESS PAYMENTS.—Section 36B(f) of the Internal Revenue Code of 1986, as added by section 1401(a) of the Patient Protection and Affordable Care Act, is amended by adding at the end the following new paragraph:

"(3) INFORMATION REQUIREMENT.—Each Exchange (or any person carrying out 1 or more responsibilities of an Exchange under section 1311(f)(3) or 1321(c) of the Patient Protection and Affordable Care Act) shall provide the following information to the Secretary and to the taxpayer with respect to any health plan provided through the Exchange:

"(A) The level of coverage described in section 1302(d) of the Patient Protection and Affordable Care Act and the period such coverage was in effect.

"(B) The total premium for the coverage without regard to the credit under this section or cost-sharing reductions under section 1402 of such Act.

"(C) The aggregate amount of any advance payment of such credit or reductions under section 1412 of such Act.

"(D) The name, address, and TIN of the primary insured and the name and TIN of each other individual obtaining coverage under the policy.

"(E) Any information provided to the Exchange, including any change of circumstances, necessary to determine eligibility for, and the amount of, such credit.

"(F) Information necessary to determine whether a taxpayer has received excess advance payments.".

(d) ADULT DEPENDENTS.—

(1) EXCLUSION OF AMOUNTS EXPENDED FOR MEDICAL CARE.—The first sentence of section 105(b) of the Internal Revenue Code of 1986 (relating to amounts expended for medical care) is amended—

(A) by striking "and his dependents" and inserting "his dependents"; and

(B) by inserting before the period the following: ", and any child (as defined in section 152(f)(1)) of the taxpayer who as of the end of the taxable year has not attained age 27".

(2) SELF-EMPLOYED HEALTH INSURANCE DEDUCTION.—Section 162(l)(1) of such Code is amended to read as follows:

"(1) ALLOWANCE OF DEDUCTION.—In the case of a taxpayer who is an employee within the meaning of section 401(c)(1), there shall be allowed as a deduction under this section an amount equal to the amount paid during the taxable year for insurance which constitutes medical care for—

"(A) the taxpayer,

"(B) the taxpayer's spouse,

"(C) the taxpayer's dependents, and

"(D) any child (as defined in section 152(f)(1)) of the taxpayer who as of the end of the taxable year has not attained age 27.".

(3) COVERAGE UNDER SELF-EMPLOYED DEDUCTION.—Section 162(l)(2)(B) of such Code is amended by inserting ", or any dependent, or individual described in subparagraph (D) of paragraph (1) with respect to," after "spouse of".

(4) SICK AND ACCIDENT BENEFITS PROVIDED TO MEMBERS OF A VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION AND

THEIR DEPENDENTS.—Section 501(c)(9) of such Code is amended by adding at the end the following new sentence: "For purposes of providing for the payment of sick and accident benefits to members of such an association and their dependents, the term 'dependent' shall include any individual who is a child (as defined in section 152(f)(1)) of a member who as of the end of the calendar year has not attained age 27.".

(5) MEDICAL AND OTHER BENEFITS FOR RETIRED EMPLOYEES.—Section 401(h) of such Code is amended by adding at the end the following: "For purposes of this subsection, the term 'dependent' shall include any individual who is a child (as defined in section 152(f)(1)) of a retired employee who as of the end of the calendar year has not attained age 27.".

(e) FIVE PERCENT INCOME DISREGARD FOR CERTAIN INDIVIDUALS.—Section 1902(e)(14) of the Social Security Act (42 U.S.C. 1396a(e)(14)), as amended by subsection (b)(1), is further amended—

(1) in subparagraph (B), by striking "No type" and inserting "Subject to subparagraph (I), no type"; and

(2) by adding at the end the following new subparagraph:

"(I) TREATMENT OF PORTION OF MODIFIED ADJUSTED GROSS INCOME.—For purposes of determining the income eligibility of an individual for medical assistance whose eligibility is determined based on the application of modified adjusted gross income under subparagraph (A), the State shall—

"(i) determine the dollar equivalent of the difference between the upper income limit on eligibility for such an individual (expressed as a percentage of the poverty line) and such upper income limit increased by 5 percentage points; and

"(ii) notwithstanding the requirement in subparagraph (A) with respect to use of modified adjusted gross income, utilize as the applicable income of such individual, in determining such income eligibility, an amount equal to the modified adjusted gross income applicable to such individual reduced by such dollar equivalent amount.".

SEC. 1005. IMPLEMENTATION FUNDING.

(a) IN GENERAL.—There is hereby established a Health Insurance Reform Implementation Fund (referred to in this section as the "Fund") within the Department of Health and Human Services to carry out the Patient Protection and Affordable Care Act and this Act (and the amendments made by such Acts).

(b) FUNDING.—There is appropriated to the Fund, out of any funds in the Treasury not otherwise appropriated, $1,000,000,000 for Federal administrative expenses to carry out such Act (and the amendments made by such Acts).

Subtitle B—Medicare

SEC. 1101. CLOSING THE MEDICARE PRESCRIPTION DRUG "DONUT HOLE".

(a) COVERAGE GAP REBATE FOR 2010.—

(1) IN GENERAL.—Section 1860D–42 of the Social Security Act (42 U.S.C. 1395w–152) is amended by adding at the end the following new subsection:

"(c) COVERAGE GAP REBATE FOR 2010.—

"(1) IN GENERAL.—In the case of an individual described in subparagraphs (A) through (D) of section 1860D–14A(g)(1) who as of the last day of a calendar quarter in 2010 has incurred costs for covered part D drugs so that the individual has exceeded the initial coverage limit under section 1860D–2(b)(3) for 2010, the Secretary shall provide for payment from the Medicare Prescription Drug Account of $250 to the individual by not later than the 15th day of the third month following the end of such quarter.

"(2) LIMITATION.—The Secretary shall provide only 1 payment under this subsection with respect to any individual.".

(2) REPEAL OF PROVISION.—Section 3315 of the Patient Protection and Affordable Care Act (including the amendments made by such section) is repealed, and any provision of law amended or repealed by such sections is hereby restored or revived as if such section had not been enacted into law.

(b) CLOSING THE DONUT HOLE.—Part D of title XVIII of the Social Security Act (42 U.S.C. 1395w–101 et seq.), as amended by section 3301 of the Patient Protection and Affordable Care Act, is further amended—

(1) in section 1860D–43—

(A) in subsection (b), by striking "July 1, 2010" and inserting "January 1, 2011"; and

(B) in subsection (c)(2), by striking "July 1, 2010, and ending on December 31, 2010," and inserting "January 1, 2011, and December 31, 2011,";

(2) in section 1860D–14A—

(A) in subsection (a)—

(i) by striking "July 1, 2010" and inserting "January 1, 2011"; and

(ii) by striking "April 1, 2010" and inserting "180 days after the date of the enactment of this section";

(B) in subsection (b)(1)(C)—

(i) in the heading, by striking "2010 AND";

(ii) by striking "July 1, 2010" and inserting "January 1, 2011"; and

(iii) by striking "May 1, 2010" and inserting "not later than 30 days after the date of the establishment of a model agreement under subsection (a)";

(C) in subsection (c)—

(i) in paragraph (1)(A)(iii), by striking "July 1, 2010, and ending on December 31, 2011" and inserting "January 1, 2011, and ending on December 31, 2011"; and

(ii) in paragraph (2), by striking "2010" and inserting "2011";

(D) in subsection (d)(2)(B), by striking "July 1, 2010, and ending on December 31, 2010" and inserting "January 1, 2011, and ending on December 31, 2011"; and

(E) in subsection (g)(1)—

(i) in the matter before subparagraph (A), by striking "an applicable drug" and inserting "a covered part D drug";

(ii) by adding "and" at the end of subparagraph (C);

(iii) by striking subparagraph (D); and

(iv) by redesignating subparagraph (E) as subparagraph (D); and

(3) in section 1860D–2(b)—

(A) in paragraph (2)(A), by striking "The coverage" and inserting "Subject to subparagraphs (C) and (D), the coverage";

(B) in paragraph (2)(B), by striking "subparagraph (A)(ii)" and inserting "subparagraphs (A)(ii), (C), and (D)";

(C) by adding at the end of paragraph (2) the following new subparagraphs:

"(C) COVERAGE FOR GENERIC DRUGS IN COVERAGE GAP.—

"(i) IN GENERAL.—Except as provided in paragraph (4), the coverage for an applicable beneficiary (as defined in section 1860D–14A(g)(1)) has coinsurance (for costs above the initial coverage limit under paragraph (3) and below the out-of-pocket threshold) for covered part D drugs that are not applicable drugs under section 1860D–14A(g)(2) that is—

"(I) equal to the generic-gap coinsurance percentage (specified in clause (ii)) for the year; or

"(II) actuarially equivalent (using processes and methods established under section 1860D–11(c)) to an average expected payment of such percentage of such costs for covered part D drugs that are not applicable drugs under section 1860D–14A(g)(2).

"(ii) GENERIC-GAP COINSURANCE PERCENTAGE.—The generic-gap coinsurance percentage specified in this clause for—

"(I) 2011 is 93 percent;

"(II) 2012 and each succeeding year before 2020 is the generic-gap coinsurance percentage under this clause for the previous year decreased by 7 percentage points; and

"(III) 2020 and each subsequent year is 25 percent.

"(D) COVERAGE FOR APPLICABLE DRUGS IN COVERAGE GAP.—

"(i) IN GENERAL.—Except as provided in paragraph (4), the coverage for an applicable beneficiary (as defined in section 1860D–14A(g)(1)) has coinsurance (for costs above the initial coverage limit under paragraph (3) and below the out-of-pocket threshold) for the negotiated price (as defined in section 1860D–14A(g)(6)) of covered part D drugs that are applicable drugs under section 1860D–14A(g)(2) that is—

"(I) equal to the difference between the applicable gap percentage (specified in clause (ii) for the year) and the discount percentage specified in section 1860D–14A(g)(4)(A) for such applicable drugs; or

"(II) actuarially equivalent (using processes and methods established under section 1860D–11(c)) to an average expected payment of such percentage of such costs, for covered part D drugs that are applicable drugs under section 1860D–14A(g)(2).

"(ii) APPLICABLE GAP PERCENTAGE.—The applicable gap percentage specified in this clause for—

"(I) 2013 and 2014 is 97.5 percent;

"(II) 2015 and 2016 is 95 percent;

"(III) 2017 is 90 percent;

"(IV) 2018 is 85 percent;

"(V) 2019 is 80 percent; and

"(VI) 2020 and each subsequent year is 75 percent.";

(D) in paragraph (3)(A), as restored under subsection (a)(2), by striking "paragraph (4)" and inserting "paragraphs (2)(C), (2)(D), and (4)"; and

(E) in paragraph (4)(E), by inserting before the period at the end the following: ", except that incurred costs shall not include the portion of the negotiated price that represents the reduction in coinsurance resulting from the application of paragraph (2)(D)"; and

(4) in section 1860D–22(a)(2)(A), by inserting before the period at the end the following: ", not taking into account the value of any discount or coverage provided during the gap in prescription drug coverage that occurs between the initial coverage limit under section 1860D–2(b)(3) during the year and the out-of-pocket threshold specified in section 1860D–2(b)(4)(B)".

(c) CONFORMING AMENDMENT TO AMP UNDER MEDICAID.—Section 1927(k)(1)(B)(i) of the Social Security Act (42 U.S.C. 1396r–8(k)(1)(B)(i)), as amended by section 2503(a)(2)(B) of the Patient Protection and Affordable Care Act, is amended—

(1) by striking "and" at the end of subclause (III);

(2) by striking the period at the end of subclause (IV); and

(3) by adding at the end the following new subclause:

"(V) discounts provided by manufacturers under section 1860D–14A.".

(d) REDUCING GROWTH RATE OF OUT-OF-POCKET COST THRESHOLD.—Section 1860D–2(b) of the Social Security Act (42 U.S.C. 1395w–102(b)) is amended—

(1) in paragraph (4)(B)(i)—

(A) in subclause (I), by striking "or" at the end;

(B) by redesignating subclause (II) as subclause (VI); and

(C) by inserting after subclause (I) the following new subclauses:

"(II) for each of years 2007 through 2013, is equal to the amount specified in this subparagraph for the previous year, increased by the annual percentage increase described in paragraph (6) for the year involved;

"(III) for 2014 and 2015, is equal to the amount specified in this subparagraph for the previous year, increased by the annual percentage increase

described in paragraph (6) for the year involved, minus 0.25 percentage point;

"(IV) for each of years 2016 through 2019, is equal to the amount specified in this subparagraph for the previous year, increased by the lesser of—

"(aa) the annual percentage increase described in paragraph (7) for the year involved, plus 2 percentage points; or

"(bb) the annual percentage increase described in paragraph (6) for the year;

"(V) for 2020, is equal to the amount that would have been applied under this subparagraph for 2020 if the amendments made by section 1101(d)(1) of the Health Care and Education Reconciliation Act of 2010 had not been enacted; or"; and

(2) by adding at the end the following new paragraph:

"(7) ADDITIONAL ANNUAL PERCENTAGE INCREASE.—The annual percentage increase specified in this paragraph for a year is equal to the annual percentage increase in the consumer price index for all urban consumers (United States city average) for the 12-month period ending in July of the previous year.".

SEC. 1102. MEDICARE ADVANTAGE PAYMENTS.

(a) REPEAL.—Effective as if included in the enactment of the Patient Protection and Affordable Care Act, sections 3201 and 3203 of such Act (and the amendments made by such sections) are repealed.

(b) PHASE-IN OF MODIFIED BENCHMARKS.—Section 1853 of the Social Security Act (42 U.S.C. 1395w–23) is amended—

(1) in subsection (j)(1)(A), by striking "(or, beginning with 2007, 1/12 of the applicable amount determined under subsection (k)(1)) for the area for the year" and inserting "for the area for the year (or, for 2007, 2008, 2009, and 2010, 1/12 of the applicable amount determined under subsection (k)(1) for the area for the year; for 2011, 1/12 of the applicable amount determined under subsection (k)(1) for the area for 2010; and, beginning with 2012, 1/12 of the blended benchmark amount determined under subsection (n)(1) for the area for the year)"; and

(2) by adding at the end the following new subsection:

"(n) DETERMINATION OF BLENDED BENCHMARK AMOUNT.—

"(1) IN GENERAL.—For purposes of subsection (j), subject to paragraphs (3), (4), and (5), the term 'blended benchmark amount' means for an area—

"(A) for 2012 the sum of—

"(i) ½ of the applicable amount for the area and year; and

"(ii) ½ of the amount specified in paragraph (2)(A) for the area and year; and

"(B) for a subsequent year the amount specified in paragraph (2)(A) for the area and year.

"(2) SPECIFIED AMOUNT.—

"(A) IN GENERAL.—The amount specified in this subparagraph for an area and year is the product of—

"(i) the base payment amount specified in subparagraph (E) for the area and year adjusted to take into

account the phase-out in the indirect costs of medical education from capitation rates described in subsection (k)(4); and

"(ii) the applicable percentage for the area for the year specified under subparagraph (B).

"(B) APPLICABLE PERCENTAGE.—Subject to subparagraph (D), the applicable percentage specified in this subparagraph for an area for a year in the case of an area that is ranked—

"(i) in the highest quartile under subparagraph (C) for the previous year is 95 percent;

"(ii) in the second highest quartile under such subparagraph for the previous year is 100 percent;

"(iii) in the third highest quartile under such subparagraph for the previous year is 107.5 percent; or

"(iv) in the lowest quartile under such subparagraph for the previous year is 115 percent.

"(C) PERIODIC RANKING.—For purposes of this paragraph in the case of an area located—

"(i) in 1 of the 50 States or the District of Columbia, the Secretary shall rank such area in each year specified under subsection (c)(1)(D)(ii) based upon the level of the amount specified in subparagraph (A)(i) for such areas; or

"(ii) in a territory, the Secretary shall rank such areas in each such year based upon the level of the amount specified in subparagraph (A)(i) for such area relative to quartile rankings computed under clause (i).

"(D) 1-YEAR TRANSITION FOR CHANGES IN APPLICABLE PERCENTAGE.—If, for a year after 2012, there is a change in the quartile in which an area is ranked compared to the previous year, the applicable percentage for the area in the year shall be the average of—

"(i) the applicable percentage for the area for the previous year; and

"(ii) the applicable percentage that would otherwise apply for the area for the year.

"(E) BASE PAYMENT AMOUNT.—Subject to subparagraph (F), the base payment amount specified in this subparagraph—

"(i) for 2012 is the amount specified in subsection (c)(1)(D) for the area for the year; or

"(ii) for a subsequent year that—

"(I) is not specified under subsection (c)(1)(D)(ii), is the base amount specified in this subparagraph for the area for the previous year, increased by the national per capita MA growth percentage, described in subsection (c)(6) for that succeeding year, but not taking into account any adjustment under subparagraph (C) of such subsection for a year before 2004; and

"(II) is specified under subsection (c)(1)(D)(ii), is the amount specified in subsection (c)(1)(D) for the area for the year.

"(F) APPLICATION OF INDIRECT MEDICAL EDUCATION PHASE-OUT.—The base payment amount specified in subparagraph (E) for a year shall be adjusted in the same manner under paragraph (4) of subsection (k) as the applicable amount is adjusted under such subsection.

"(3) ALTERNATIVE PHASE-INS.—

"(A) 4-YEAR PHASE-IN FOR CERTAIN AREAS.—If the difference between the applicable amount (as defined in subsection (k)) for an area for 2010 and the projected 2010 benchmark amount (as defined in subparagraph (C)) for the area is at least $30 but less than $50, the blended benchmark amount for the area is—

"(i) for 2012 the sum of—

"(I) ¾ of the applicable amount for the area and year; and

"(II) ¼ of the amount specified in paragraph (2)(A) for the area and year;

"(ii) for 2013 the sum of—

"(I) ½ of the applicable amount for the area and year; and

"(II) ½ of the amount specified in paragraph (2)(A) for the area and year;

"(iii) for 2014 the sum of—

"(I) ¼ of the applicable amount for the area and year; and

"(II) ¾ of the amount specified in paragraph (2)(A) for the area and year; and

"(iv) for a subsequent year the amount specified in paragraph (2)(A) for the area and year.

"(B) 6-YEAR PHASE-IN FOR CERTAIN AREAS.—If the difference between the applicable amount (as defined in subsection (k)) for an area for 2010 and the projected 2010 benchmark amount (as defined in subparagraph (C)) for the area is at least $50, the blended benchmark amount for the area is—

"(i) for 2012 the sum of—

"(I) ⅚ of the applicable amount for the area and year; and

"(II) ⅙ of the amount specified in paragraph (2)(A) for the area and year;

"(ii) for 2013 the sum of—

"(I) ⅔ of the applicable amount for the area and year; and

"(II) ⅓ of the amount specified in paragraph (2)(A) for the area and year;

"(iii) for 2014 the sum of—

"(I) ½ of the applicable amount for the area and year; and

"(II) ½ of the amount specified in paragraph (2)(A) for the area and year;

"(iv) for 2015 the sum of—

"(I) ⅓ of the applicable amount for the area and year; and

"(II) ⅔ of the amount specified in paragraph (2)(A) for the area and year; and

"(v) for 2016 the sum of—

"(I) ⅙ of the applicable amount for the area and year; and

"(II) ⅚ of the amount specified in paragraph (2)(A) for the area and year; and

"(vi) for a subsequent year the amount specified in paragraph (2)(A) for the area and year.

"(C) PROJECTED 2010 BENCHMARK AMOUNT.—The projected 2010 benchmark amount described in this subparagraph for an area is equal to the sum of—

"(i) ½ of the applicable amount (as defined in subsection (k)) for the area for 2010; and

"(ii) ½ of the amount specified in paragraph (2)(A) for the area for 2010 but determined as if there were substituted for the applicable percentage specified in clause (ii) of such paragraph the sum of—

"(I) the applicable percent that would be specified under subparagraph (B) of paragraph (2) (determined without regard to subparagraph (D) of such paragraph) for the area for 2010 if any reference in such paragraph to 'the previous year' were deemed a reference to 2010; and

"(II) the applicable percentage increase that would apply to a qualifying plan in the area under subsection (o) as if any reference in such subsection to 2012 were deemed a reference to 2010 and as if the determination of a qualifying county under paragraph (3)(B) of such subsection were made for 2010.

"(4) CAP ON BENCHMARK AMOUNT.—In no case shall the blended benchmark amount for an area for a year (determined taking into account subsection (o)) be greater than the applicable amount that would (but for the application of this subsection) be determined under subsection (k)(1) for the area for the year.

"(5) NON-APPLICATION TO PACE PLANS.—This subsection shall not apply to payments to a PACE program under section 1894.".

(c) APPLICABLE PERCENTAGE QUALITY INCREASES.—Section 1853 of such Act (42 U.S.C. 1395w–23), as amended by subsection (b), is amended—

(1) in subsection (j), by inserting "subject to subsection (o)," after "For purposes of this part,";

(2) in subsection (n)(2)(B), as added by subsection (b), by inserting ", subject to subsection (o)" after "as follows"; and

(3) by adding at the end the following new subsection:

"(o) APPLICABLE PERCENTAGE QUALITY INCREASES.—

"(1) IN GENERAL.—Subject to the succeeding paragraphs, in the case of a qualifying plan with respect to a year beginning with 2012, the applicable percentage under subsection (n)(2)(B) shall be increased on a plan or contract level, as determined by the Secretary—

"(A) for 2012, by 1.5 percentage points;

"(B) for 2013, by 3.0 percentage points; and

"(C) for 2014 or a subsequent year, by 5.0 percentage points.

"(2) INCREASE FOR QUALIFYING PLANS IN QUALIFYING COUNTIES.—The increase applied under paragraph (1) for a qualifying plan located in a qualifying county for a year shall be doubled.

"(3) QUALIFYING PLANS AND QUALIFYING COUNTY DEFINED; APPLICATION OF INCREASES TO LOW ENROLLMENT AND NEW PLANS.—For purposes of this subsection:

"(A) QUALIFYING PLAN.—

"(i) IN GENERAL.—The term 'qualifying plan' means, for a year and subject to paragraph (4), a plan that had a quality rating under paragraph (4) of 4 stars or higher based on the most recent data available for such year.

"(ii) APPLICATION OF INCREASES TO LOW ENROLLMENT PLANS.—

"(I) 2012.—For 2012, the term 'qualifying plan' includes an MA plan that the Secretary determines is not able to have a quality rating under paragraph (4) because of low enrollment.

"(II) 2013 AND SUBSEQUENT YEARS.—For 2013 and subsequent years, for purposes of determining whether an MA plan with low enrollment (as defined by the Secretary) is included as a qualifying plan, the Secretary shall establish a method to apply to MA plans with low enrollment (as defined by the Secretary) the computation of quality rating and the rating system under paragraph (4).

"(iii) APPLICATION OF INCREASES TO NEW PLANS.—

"(I) IN GENERAL.—A new MA plan that meets criteria specified by the Secretary shall be treated as a qualifying plan, except that in applying paragraph (1), the applicable percentage under subsection (n)(2)(B) shall be increased—

"(aa) for 2012, by 1.5 percentage points;

"(bb) for 2013, by 2.5 percentage points; and

"(cc) for 2014 or a subsequent year, by 3.5 percentage points.

"(II) NEW MA PLAN DEFINED.—The term 'new MA plan' means, with respect to a year, a plan offered by an organization or sponsor that has not had a contract as a Medicare Advantage organization in the preceding 3-year period.

"(B) QUALIFYING COUNTY.—The term 'qualifying county' means, for a year, a county—

"(i) that has an MA capitation rate that, in 2004, was based on the amount specified in subsection (c)(1)(B) for a Metropolitan Statistical Area with a population of more than 250,000;

"(ii) for which, as of December 2009, of the Medicare Advantage eligible individuals residing in the county at least 25 percent of such individuals were enrolled in Medicare Advantage plans; and

"(iii) that has per capita fee-for-service spending that is lower than the national monthly per capita cost for expenditures for individuals enrolled under

the original medicare fee-for-service program for the year.

"(4) QUALITY DETERMINATIONS FOR APPLICATION OF INCREASE.—

"(A) QUALITY DETERMINATION.—The quality rating for a plan shall be determined according to a 5-star rating system (based on the data collected under section 1852(e)).

"(B) PLANS THAT FAILED TO REPORT.—An MA plan which does not report data that enables the Secretary to rate the plan for purposes of this paragraph shall be counted as having a rating of fewer than 3.5 stars.

"(5) EXCEPTION FOR PACE PLANS.—This subsection shall not apply to payments to a PACE program under section 1894.".

(4) DETERMINATION OF MEDICARE PART D LOW-INCOME BENCHMARK PREMIUM.—Section 1860D–14(b)(2)(B)(iii) of the Social Security Act (42 U.S.C. 1395w–114(b)(2)(B)(iii)) as amended by section 3302 of the Patient Protection and Affordable Care Act, is amended by striking ", determined without regard to any reduction in such premium as a result of any beneficiary rebate under section 1854(b)(1)(C) or bonus payment under section 1853(n)" and inserting the following: "and determined before the application of the monthly rebate computed under section 1854(b)(1)(C)(i) for that plan and year involved and, in the case of a qualifying plan, before the application of the increase under section 1853(o) for that plan and year involved".

(d) BENEFICIARY REBATES.—Section 1854(b)(1)(C) of such Act (42 U.S.C. 1395w–24(b)(1)(C)), as amended by section 3202(b) of the Patient Protection and Affordable Care Act, is further amended—

(1) in clause (i), by inserting "(or the applicable rebate percentage specified in clause (iii) in the case of plan years beginning on or after January 1, 2012)" after "75 percent"; and

(2) by striking clause (iii), by redesignating clauses (iv) and (v) as clauses (vii) and (viii), respectively, and by inserting after clause (ii) the following new clauses:

"(iii) APPLICABLE REBATE PERCENTAGE.—The applicable rebate percentage specified in this clause for a plan for a year, based on the system under section 1853(o)(4)(A), is the sum of—

"(I) the product of the old phase-in proportion for the year under clause (iv) and 75 percent; and

"(II) the product of the new phase-in proportion for the year under clause (iv) and the final applicable rebate percentage under clause (v).

"(iv) OLD AND NEW PHASE-IN PROPORTIONS.—For purposes of clause (iv)—

"(I) for 2012, the old phase-in proportion is ⅔ and the new phase-in proportion is ⅓;

"(II) for 2013, the old phase-in proportion is ⅓ and the new phase-in proportion is ⅔; and

"(III) for 2014 and any subsequent year, the old phase-in proportion is 0 and the new phase-in proportion is 1.

"(v) FINAL APPLICABLE REBATE PERCENTAGE.—Subject to clause (vi), the final applicable rebate percentage under this clause is—

"(I) in the case of a plan with a quality rating under such system of at least 4.5 stars, 70 percent;

"(II) in the case of a plan with a quality rating under such system of at least 3.5 stars and less than 4.5 stars, 65 percent; and

"(III) in the case of a plan with a quality rating under such system of less than 3.5 stars, 50 percent.

"(vi) TREATMENT OF LOW ENROLLMENT AND NEW PLANS.—For purposes of clause (v)—

"(I) for 2012, in the case of a plan described in subclause (I) of subsection (o)(3)(A)(ii), the plan shall be treated as having a rating of 4.5 stars; and

"(II) for 2012 or a subsequent year, in the case of a new MA plan (as defined under subclause (III) of subsection (o)(3)(A)(iii)) that is treated as a qualifying plan pursuant to subclause (I) of such subsection, the plan shall be treated as having a rating of 3.5 stars.".

(e) CODING INTENSITY ADJUSTMENT.—Section 1853(a)(1)(C)(ii) of such Act (42 U.S.C. 1395w–23(a)(1)(C)(ii)) is amended—

(1) in the heading, by striking "DURING PHASEOUT OF BUDGET NEUTRALITY FACTOR" and inserting "OF CODING ADJUSTMENT";

(2) in the matter before subclause (I), by striking "through 2010" and inserting "and each subsequent year"; and

(3) in subclause (II)—

(A) in the first sentence, by inserting "annually" before "conduct an analysis";

(B) in the second sentence—

(i) by inserting "on a timely basis" after "are incorporated"; and

(ii) by striking "only for 2008, 2009, and 2010" and inserting "for 2008 and subsequent years";

(C) in the third sentence, by inserting "and updated as appropriate" before the period at the end; and

(D) by adding at the end the following new subclauses:

"(III) In calculating each year's adjustment, the adjustment factor shall be for 2014, not less than the adjustment factor applied for 2010, plus 1.3 percentage points; for each of years 2015 through 2018, not less than the adjustment factor applied for the previous year, plus 0.25 percentage point; and for 2019 and each subsequent year, not less than 5.7 percent.

"(IV) Such adjustment shall be applied to risk scores until the Secretary implements risk adjustment using Medicare Advantage diagnostic, cost, and use data.".

(f) REPEAL OF COMPARATIVE COST ADJUSTMENT PROGRAM.—Section 1860C–1 of the Social Security Act (42 U.S.C. 1395w–29), as added by section 241(a) of the Medicare Prescription Drug,

Improvement, and Modernization Act of 2003 (Public Law 108–173), is repealed.

SEC. 1103. SAVINGS FROM LIMITS ON MA PLAN ADMINISTRATIVE COSTS.

Section 1857(e) of the Social Security Act (42 U.S.C. 1395w–27(e)) is amended by adding at the end the following new paragraph:

"(4) REQUIREMENT FOR MINIMUM MEDICAL LOSS RATIO.—If the Secretary determines for a contract year (beginning with 2014) that an MA plan has failed to have a medical loss ratio of at least .85—

"(A) the MA plan shall remit to the Secretary an amount equal to the product of—

"(i) the total revenue of the MA plan under this part for the contract year; and

"(ii) the difference between .85 and the medical loss ratio;

"(B) for 3 consecutive contract years, the Secretary shall not permit the enrollment of new enrollees under the plan for coverage during the second succeeding contract year; and

"(C) the Secretary shall terminate the plan contract if the plan fails to have such a medical loss ratio for 5 consecutive contract years.".

SEC. 1104. DISPROPORTIONATE SHARE HOSPITAL (DSH) PAYMENTS.

Section 1886(r) of the Social Security Act (42 U.S.C. 1395ww(r)), as added by section 3133 of the Patient Protection and Affordable Care Act and as amended by section 10316 of such Act, is amended—

(1) in paragraph (1), by striking "2015" and inserting "2014"; and

(2) in paragraph (2)—

(A) in the matter preceding subparagraph (A), by striking "2015" and inserting "2014";

(B) in subparagraph (B)(i)—

(i) in the heading, by inserting "2014," after "YEARS";

(ii) in the matter preceding subclause (I), by inserting "2014," after "each of fiscal years";

(iii) in subclause (I), by striking "on such Act" and inserting "on the Health Care and Education Reconciliation Act of 2010"; and

(iv) in the matter following subclause (II), by striking "minus 1.5 percentage points" and inserting "minus 0.1 percentage points for fiscal year 2014 and minus 0.2 percentage points for each of fiscal years 2015, 2016, and 2017"; and

(C) in subparagraph (B)(ii), in the matter following subclause (II), by striking "and, for each of 2018 and 2019, minus 1.5 percentage points" and inserting "minus 0.2 percentage points for each of fiscal years 2018 and 2019".

SEC. 1105. MARKET BASKET UPDATES.

(a) IPPS.—Section 1886(b)(3)(B) of the Social Security Act (42 U.S.C. 1395ww(b)(3)(B)), as amended by sections 3401(a)(4) and 10319(a) of the Patient Protection and Affordable Care Act, is amended—

(1) in clause (xii)—

(A) by placing the subclause (II) (inserted by section 10319(a)(3) of the Patient Protection and Affordable Care Act) immediately after subclause (I) and, in such subclause (II), by striking "and" at the end; and

(B) by striking subclause (III) and inserting the following:

"(III) for fiscal year 2014, by 0.3 percentage point;

"(IV) for each of fiscal years 2015 and 2016, by 0.2 percentage point; and

"(V) for each of fiscal years 2017, 2018, and 2019, by 0.75 percentage point."; and

(2) by striking clause (xiii).

(b) LONG-TERM CARE HOSPITALS.—Section 1886(m)(4) of the Social Security Act (42 U.S.C. 1395ww(m)(4)), as added by section 3401(c) of the Patient Protection and Affordable Care Act and amended by section 10319(b) of such Act, is amended—

(1) in subparagraph (A)—

(A) in clause (iii), by striking "and" at the end; and

(B) by striking clause (iv) and inserting the following:

"(iv) for rate year 2014, 0.3 percentage point;

"(v) for each of rate years 2015 and 2016, 0.2 percentage point; and

"(vi) for each of rate years 2017, 2018, and 2019, 0.75 percentage point.";

(2) by striking subparagraph (B); and

(3) by striking "(4) OTHER ADJUSTMENT.—" and all that follows through "For purposes" and inserting "(4) OTHER ADJUSTMENT.—For purposes" (and redesignating clauses (i) through (vi) as subparagraphs (A) through (F), respectively, with appropriate indentation).

(c) INPATIENT REHABILITATION FACILITIES.—Section 1886(j)(3)(D) of the Social Security Act (42 U.S.C. 1395ww(j)(3)(D)), as added by section 3401(d)(2) of the Patient Protection and Affordable Care Act and amended by section 10319(c) of such Act, is amended—

(1) in clause (i)—

(A) by placing the subclause (II) (inserted by section 10319(c)(3) of the Patient Protection and Affordable Care Act) immediately after subclause (I) and, in such subclause (II), by striking "and" at the end; and

(B) by striking subclause (III) and inserting the following:

"(III) for fiscal year 2014, 0.3 percentage point;

"(IV) for each of fiscal years 2015 and 2016, 0.2 percentage point; and

"(V) for each of fiscal years 2017, 2018, and 2019, 0.75 percentage point.";

(2) by striking clause (ii); and

(3) by striking "(D) OTHER ADJUSTMENT.—" and all that follows through "For purposes" and inserting "(D) OTHER ADJUSTMENT.—For purposes" (and redesignating subclauses (I) through (V) as clauses (i) through (v), respectively, with appropriate indentation).

(d) PSYCHIATRIC HOSPITALS.—Section 1886(s)(3) of the Social Security Act, as added by section 3401(f) of the Patient Protection

and Affordable Care Act and amended by section 10319(e) of such Act, is amended—

(1) in subparagraph (A)—

(A) by placing the clause (ii) (inserted by section 10319(e)(3) of the Patient Protection and Affordable Care Act) immediately after clause (i) and, in such clause (ii), by striking "and" at the end; and

(B) by striking clause (iii) and inserting the following:

"(iii) for the rate year beginning in 2014, 0.3 percentage point;

"(iv) for each of the rate years beginning in 2015 and 2016, 0.2 percentage point; and

"(v) for each of the rate years beginning in 2017, 2018, and 2019, 0.75 percentage point.";

(2) by striking subparagraph (B); and

(3) by striking "(3) OTHER ADJUSTMENT.—" and all that follows through "For purposes" and inserting "(3) OTHER ADJUSTMENT.—For purposes" (and redesignating clauses (i) through (v) as subparagraphs (A) through (E), respectively, with appropriate indentation).

(e) OUTPATIENT HOSPITALS.—Section 1833(t)(3)(G) of the Social Security Act (42 U.S.C. 1395l(t)(3)(G)), as added by section 3401(i)(2) of the Patient Protection and Affordable Care Act and amended by section 10319(g) of such Act, is amended—

(1) in clause (i)—

(A) by placing the subclause (II) (inserted by section 10319(g)(3) of the Patient Protection and Affordable Care Act) immediately after subclause (I) and, in such subclause (II), by striking "and" at the end; and

(B) by striking subclause (III) and inserting the following:

"(III) for 2014, 0.3 percentage point;

"(IV) for each of 2015 and 2016, 0.2 percentage point; and

"(V) for each of 2017, 2018, and 2019, 0.75 percentage point.";

(2) by striking clause (ii); and

(3) by striking "(G) OTHER ADJUSTMENT.—" and all that follows through "For purposes" and inserting "(G) OTHER ADJUSTMENT.—For purposes" (and redesignating subclauses (I) through (V) as clauses (i) through (v), respectively, with appropriate indentation).

SEC. 1106. PHYSICIAN OWNERSHIP-REFERRAL.

Section 1877(i) of the Social Security Act (42 U.S.C. 1395nn(i)), as added by section 6001(a)(3) of the Patient Protection and Affordable Care Act and as amended by section 10601(a) of such Act, is amended—

(1) in paragraph (1)(A)(i), by striking "August 1, 2010" and inserting "December 31, 2010"; and

(2) in paragraph (3)—

(A) in subparagraph (A)(i), by striking "an applicable hospital (as defined in subparagraph (E))" and inserting "a hospital that is an applicable hospital (as defined in subparagraph (E)) or is a high Medicaid facility described in subparagraph (F)";

(B) in subparagraph (C)(iii), by inserting after "date of enactment of this subsection" the following: "(or, in the case of a hospital that did not have a provider agreement in effect as of such date but does have such an agreement in effect on December 31, 2010, the effective date of such provider agreement)";

(C) by redesignating subparagraphs (F) through (H) as subparagraphs (G) through (I), respectively; and

(D) by inserting after subparagraph (E) the following new subparagraph:

"(F) HIGH MEDICAID FACILITY DESCRIBED.—A high Medicaid facility described in this subparagraph is a hospital that—

"(i) is not the sole hospital in a county;

"(ii) with respect to each of the 3 most recent years for which data are available, has an annual percent of total inpatient admissions that represent inpatient admissions under title XIX that is estimated to be greater than such percent with respect to such admissions for any other hospital located in the county in which the hospital is located; and

"(iii) meets the conditions described in subparagraph (E)(iii).".

SEC. 1107. PAYMENT FOR IMAGING SERVICES.

Section 1848 of the Social Security Act (42 U.S.C. 1395w–4), as amended by section 3135(a) of the Patient Protection and Affordable Care Act, is amended—

(1) in subsection (b)(4)—

(A) in subparagraph (B), by striking "this paragraph" and inserting "subparagraph (A)"; and

(B) by amending subparagraph (C) to read as follows:

"(C) ADJUSTMENT IN IMAGING UTILIZATION RATE.—With respect to fee schedules established for 2011 and subsequent years, in the methodology for determining practice expense relative value units for expensive diagnostic imaging equipment under the final rule published by the Secretary in the Federal Register on November 25, 2009 (42 CFR 410 et al.), the Secretary shall use a 75 percent assumption instead of the utilization rates otherwise established in such final rule."; and

(2) in subsection (c)(2)(B)(v), by striking subclauses (III), (IV), and (V) and inserting the following new subclause:

"(III) CHANGE IN UTILIZATION RATE FOR CERTAIN IMAGING SERVICES.—Effective for fee schedules established beginning with 2011, reduced expenditures attributable to the change in the utilization rate applicable to 2011, as described in subsection (b)(4)(C).".

SEC. 1108. PE GPCI ADJUSTMENT FOR 2010.

Effective as if included in the enactment of the Patient Protection and Affordable Care Act, section 1848(e)(1)(H)(i) of the Social Security Act (42 U.S.C. 1395w–4(e)(1)(H)(i)), as added by section 3102(b)(2) of the Patient Protection and Affordable Care Act, is amended by striking "¾" and inserting "½".

SEC. 1109. PAYMENT FOR QUALIFYING HOSPITALS.

(a) IN GENERAL.—From the amount available under subsection (b), the Secretary of Health and Human Services shall provide for a payment to qualifying hospitals (as defined in subsection (d)) for fiscal years 2011 and 2012 of the amount determined under subsection (c).

(b) AMOUNTS AVAILABLE.—There shall be available from the Federal Hospital Insurance Trust Fund $400,000,000 for payments under this section for fiscal years 2011 and 2012.

(c) PAYMENT AMOUNT.—The amount of payment under this section for a qualifying hospital shall be determined, in a manner consistent with the amount available under subsection (b), in proportion to the portion of the amount of the aggregate payments under section 1886(d) of the Social Security Act to the hospital for fiscal year 2009 bears to the sum of all such payments to all qualifying hospitals for such fiscal year.

(d) QUALIFYING HOSPITAL DEFINED.—In this section, the term "qualifying hospital" means a subsection (d) hospital (as defined for purposes of section 1886(d) of the Social Security Act) that is located in a county that ranks, based upon its ranking in age, sex, and race adjusted spending for benefits under parts A and B under title XVIII of such Act per enrollee, within the lowest quartile of such counties in the United States.

Subtitle C—Medicaid

SEC. 1201. FEDERAL FUNDING FOR STATES.

Section 1905 of the Social Security Act (42 U.S.C. 1396d), as amended by sections 2001(a)(3) and 10201(c) of the Patient Protection and Affordable Care Act, is amended—

(1) in subsection (y)—

(A) by redesignating subclause (II) of paragraph (1)(B)(ii) as paragraph (5) of subsection (z) and realigning the left margins accordingly; and

(B) by striking paragraph (1) and inserting the following:

"(1) AMOUNT OF INCREASE.—Notwithstanding subsection (b), the Federal medical assistance percentage for a State that is one of the 50 States or the District of Columbia, with respect to amounts expended by such State for medical assistance for newly eligible individuals described in subclause (VIII) of section 1902(a)(10)(A)(i), shall be equal to—

"(A) 100 percent for calendar quarters in 2014, 2015, and 2016;

"(B) 95 percent for calendar quarters in 2017;

"(C) 94 percent for calendar quarters in 2018;

"(D) 93 percent for calendar quarters in 2019; and

"(E) 90 percent for calendar quarters in 2020 and each year thereafter."; and

(2) in subsection (z)—

(A) in paragraph (1), by striking "September 30, 2019" and inserting "December 31, 2015" and by striking "subsection (y)(1)(B)(ii)(II)" and inserting "paragraph (3)";

(B) by striking paragraphs (2) through (4) and inserting the following:

"(2)(A) For calendar quarters in 2014 and each year thereafter, the Federal medical assistance percentage otherwise determined under subsection (b) for an expansion State described in paragraph (3) with respect to medical assistance for individuals described in section 1902(a)(10)(A)(i)(VIII) who are nonpregnant childless adults with respect to whom the State may require enrollment in benchmark coverage under section 1937 shall be equal to the percent specified in subparagraph (B)(i) for such year.

"(B)(i) The percent specified in this subparagraph for a State for a year is equal to the Federal medical assistance percentage (as defined in the first sentence of subsection (b)) for the State increased by a number of percentage points equal to the transition percentage (specified in clause (ii) for the year) of the number of percentage points by which—

"(I) such Federal medical assistance percentage for the State, is less than

"(II) the percent specified in subsection (y)(1) for the year.

"(ii) The transition percentage specified in this clause for—

"(I) 2014 is 50 percent;

"(II) 2015 is 60 percent;

"(III) 2016 is 70 percent;

"(IV) 2017 is 80 percent;

"(V) 2018 is 90 percent; and

"(VI) 2019 and each subsequent year is 100 percent."; and

(C) by redesignating paragraph (5) (as added by paragraph (1)(A) of this section) as paragraph (3), realigning the left margins to align with paragraph (2), and striking the heading and all that follows through "a State is" and inserting "A State is".

SEC. 1202. PAYMENTS TO PRIMARY CARE PHYSICIANS.

(a) IN GENERAL.—

(1) FEE-FOR-SERVICE PAYMENTS.—Section 1902 of the Social Security Act (42 U.S.C. 1396a), as amended by section 2303(a)(2) of the Patient Protection and Affordable Care Act, is amended—

(A) in subsection (a)(13)—

(i) by striking "and" at the end of subparagraph (A);

(ii) by adding "and" at the end of subparagraph (B); and

(iii) by adding at the end the following new subparagraph:

"(C) payment for primary care services (as defined in subsection (jj)) furnished in 2013 and 2014 by a physician with a primary specialty designation of family medicine, general internal medicine, or pediatric medicine at a rate not less than 100 percent of the payment rate that applies to such services and physician under part B of title XVIII (or, if greater, the payment rate that would be applicable under such part if the conversion factor under section 1848(d) for the year involved were the conversion factor under such section for 2009);"; and

(B) by adding at the end the following new subsection:

"(jj) PRIMARY CARE SERVICES DEFINED.—For purposes of subsection (a)(13)(C), the term 'primary care services' means—

"(1) evaluation and management services that are procedure codes (for services covered under title XVIII) for services in the category designated Evaluation and Management in the Healthcare Common Procedure Coding System (established by the Secretary under section 1848(c)(5) as of December 31, 2009, and as subsequently modified); and

"(2) services related to immunization administration for vaccines and toxoids for which CPT codes 90465, 90466, 90467, 90468, 90471, 90472, 90473, or 90474 (as subsequently modified) apply under such System.".

(2) UNDER MEDICAID MANAGED CARE PLANS.—Section 1932(f) of such Act (42 U.S.C. 1396u–2(f)) is amended—

(A) in the heading, by adding at the end the following: "; ADEQUACY OF PAYMENT FOR PRIMARY CARE SERVICES"; and

(B) by inserting before the period at the end the following: "and, in the case of primary care services described in section 1902(a)(13)(C), consistent with the minimum payment rates specified in such section (regardless of the manner in which such payments are made, including in the form of capitation or partial capitation)".

(b) INCREASE IN PAYMENT USING INCREASED FMAP.—Section 1905 of the Social Security Act, as amended by section 1004(b) of this Act and section 10201(c)(6) of the Patient Protection and Affordable Care Act, is amended by adding at the end the following new subsection:

"(dd) INCREASED FMAP FOR ADDITIONAL EXPENDITURES FOR PRIMARY CARE SERVICES.—Notwithstanding subsection (b), with respect to the portion of the amounts expended for medical assistance for services described in section 1902(a)(13)(C) furnished on or after January 1, 2013, and before January 1, 2015, that is attributable to the amount by which the minimum payment rate required under such section (or, by application, section 1932(f)) exceeds the payment rate applicable to such services under the State plan as of July 1, 2009, the Federal medical assistance percentage for a State that is one of the 50 States or the District of Columbia shall be equal to 100 percent. The preceding sentence does not prohibit the payment of Federal financial participation based on the Federal medical assistance percentage for amounts in excess of those specified in such sentence.".

SEC. 1203. DISPROPORTIONATE SHARE HOSPITAL PAYMENTS.

(a) IN GENERAL.—Section 1923(f) of the Social Security Act (42 U.S.C. 1396r–4(f)), as amended by sections 2551(a)(4) and 10201(e)(1) of the Patient Protection and Affordable Care Act, is amended—

(1) in paragraph (6)(B)(iii), in the matter preceding subclause (I), by striking "or paragraph (7)"; and

(2) by striking paragraph (7) and inserting the following:

"(7) MEDICAID DSH REDUCTIONS.—

"(A) REDUCTIONS.—

"(i) IN GENERAL.—For each of fiscal years 2014 through 2020 the Secretary shall effect the following reductions:

"(I) REDUCTION IN DSH ALLOTMENTS.—The Secretary shall reduce DSH allotments to States in the amount specified under the DSH health reform methodology under subparagraph (B) for the State for the fiscal year.

"(II) REDUCTIONS IN PAYMENTS.—The Secretary shall reduce payments to States under section 1903(a) for each calendar quarter in the fiscal year, in the manner specified in clause (iii), in an amount equal to ¼ of the DSH allotment reduction under subclause (I) for the State for the fiscal year.

"(ii) AGGREGATE REDUCTIONS.—The aggregate reductions in DSH allotments for all States under clause (i)(I) shall be equal to—

"(I) $500,000,000 for fiscal year 2014;
"(II) $600,000,000 for fiscal year 2015;
"(III) $600,000,000 for fiscal year 2016;
"(IV) $1,800,000,000 for fiscal year 2017;
"(V) $5,000,000,000 for fiscal year 2018;
"(VI) $5,600,000,000 for fiscal year 2019; and
"(VII) $4,000,000,000 for fiscal year 2020.

The Secretary shall distribute such aggregate reductions among States in accordance with subparagraph (B).

"(iii) MANNER OF PAYMENT REDUCTION.—The amount of the payment reduction under clause (i)(II) for a State for a quarter shall be deemed an overpayment to the State under this title to be disallowed against the State's regular quarterly draw for all spending under section 1903(d)(2). Such a disallowance is not subject to a reconsideration under subsections (d) and (e) of section 1116.

"(iv) DEFINITION.—In this paragraph, the term 'State' means the 50 States and the District of Columbia.

"(B) DSH HEALTH REFORM METHODOLOGY.—The Secretary shall carry out subparagraph (A) through use of a DSH Health Reform methodology that meets the following requirements:

"(i) The methodology imposes the largest percentage reductions on the States that—

"(I) have the lowest percentages of uninsured individuals (determined on the basis of data from the Bureau of the Census, audited hospital cost reports, and other information likely to yield accurate data) during the most recent year for which such data are available; or

"(II) do not target their DSH payments on—

"(aa) hospitals with high volumes of Medicaid inpatients (as defined in subsection (b)(1)(A)); and

"(bb) hospitals that have high levels of uncompensated care (excluding bad debt).

"(ii) The methodology imposes a smaller percentage reduction on low DSH States described in paragraph (5)(B).

"(iii) The methodology takes into account the extent to which the DSH allotment for a State was included in the budget neutrality calculation for a coverage expansion approved under section 1115 as of July 31, 2009.".

(b) EXTENSION OF DSH ALLOTMENT.—Section 1923(f)(6)(A) of the Social Security Act (42 U.S.C. 1396r–4(f)(6)(A)) is amended by adding at the end the following:

"(v) ALLOTMENT FOR 2D, 3RD, AND 4TH QUARTERS OF FISCAL YEAR 2012 AND FOR FISCAL YEAR 2013.—Notwithstanding the table set forth in paragraph (2):

"(I) 2D, 3RD, AND 4TH QUARTERS OF FISCAL YEAR 2012.—In the case of a State that has a DSH allotment of $0 for the 2d, 3rd, and 4th quarters of fiscal year 2012, the DSH allotment shall be $47,200,000 for such quarters.

"(II) FISCAL YEAR 2013.—In the case of a State that has a DSH allotment of $0 for fiscal year 2013, the DSH allotment shall be $53,100,000 for such fiscal year.".

SEC. 1204. FUNDING FOR THE TERRITORIES.

(a) IN GENERAL.—Part III of subtitle D of title I of the Patient Protection and Affordable Care Act, as amended by section 10104(m) of such Act, is amended by inserting after section 1322 the following section:

"SEC. 1323. FUNDING FOR THE TERRITORIES.

"(a) IN GENERAL.—A territory that—

"(1) elects consistent with subsection (b) to establish an Exchange in accordance with part II of this subtitle and establishes such an Exchange in accordance with such part shall be treated as a State for purposes of such part and shall be entitled to payment from the amount allocated to the territory under subsection (c); or

"(2) does not make such election shall be entitled to an increase in the dollar limitation applicable to the territory under subsections (f) and (g) of section 1108 of the Social Security Act (42 U.S.C. 1308) for such period in such amount for such territory and such increase shall not be taken into account in computing any other amount under such subsections.

"(b) TERMS AND CONDITIONS.—An election under subsection (a)(1) shall—

"(1) not be effective unless the election is consistent with section 1321 and is received not later than October 1, 2013; and

"(2) be contingent upon entering into an agreement between the territory and the Secretary that requires that—

"(A) funds provided under the agreement shall be used only to provide premium and cost-sharing assistance to residents of the territory obtaining health insurance coverage through the Exchange; and

"(B) the premium and cost-sharing assistance provided under such agreement shall be structured in such a manner so as to prevent any gap in assistance for individuals between the income level at which medical assistance is available through the territory's Medicaid plan under title XIX of the Social Security Act and the income level at

which premium and cost-sharing assistance is available under the agreement.

"(c) APPROPRIATION AND ALLOCATION.—

"(1) APPROPRIATION.—Out of any funds in the Treasury not otherwise appropriated, there is appropriated for purposes of payment pursuant to subsection (a) $1,000,000,000, to be available during the period beginning with 2014 and ending with 2019.

"(2) ALLOCATION.—The Secretary shall allocate the amount appropriated under paragraph (1) among the territories for purposes of carrying out this section as follows:

"(A) For Puerto Rico, $925,000,000.

"(B) For another territory, the portion of $75,000,000 specified by the Secretary.".

(b) MEDICAID FUNDING.—

(1) INCREASE IN FUNDING CAPS.—Section 1108(g) of the Social Security Act (42 U.S.C. 1308(g)), as amended by section 2005(a) of the Patient Protection and Affordable Care Act, is amended—

(A) in paragraph (2), by inserting "and section 1323(a)(2) of the Patient Protection and Affordable Care Act" after "subject to"; and

(B) by striking paragraph (5) and inserting the following:

"(5) ADDITIONAL INCREASE.—The Secretary shall increase the amounts otherwise determined under this subsection for Puerto Rico, the Virgin Islands, Guam, the Northern Mariana Islands, and American Samoa (after the application of subsection (f) and the preceding paragraphs of this subsection) for the period beginning July 1, 2011, and ending on September 30, 2019, by such amounts that the total additional payments under title XIX to such territories equals $6,300,000,000 for such period. The Secretary shall increase such amounts in proportion to the amounts applicable to such territories under this subsection and subsection (f) on the date of enactment of this paragraph.".

(2) DISREGARD OF PAYMENTS; INCREASED FMAP.—Section 2005 of the Patient Protection and Affordable Care Act is amended—

(A) by repealing subsection (b) (and the amendments made by that subsection) and section 1108(g)(4) of the Social Security Act shall be applied as if such amendments had never been enacted; and

(B) in subsection (c)(2), by striking "January" and inserting "July".

SEC. 1205. DELAY IN COMMUNITY FIRST CHOICE OPTION.

Section 1915(k)(1) of the Social Security Act (42 U.S.C. 1396n(k)), as added by section 2401 of the Patient Protection and Affordable Care Act, is amended by striking "October 1, 2010" and inserting "October 1, 2011".

SEC. 1206. DRUG REBATES FOR NEW FORMULATIONS OF EXISTING DRUGS.

(a) TREATMENT OF NEW FORMULATIONS.—Subparagraph (C) of section 1927(c)(2) of the Social Security Act (42 U.S.C. 1396r–8(c)(2)), as added by section 2501(d) of the Patient Protection and Affordable Care Act, is amended to read as follows:

"(C) TREATMENT OF NEW FORMULATIONS.—In the case of a drug that is a line extension of a single source drug or an innovator multiple source drug that is an oral solid dosage form, the rebate obligation with respect to such drug under this section shall be the amount computed under this section for such new drug or, if greater, the product of—

"(i) the average manufacturer price of the line extension of a single source drug or an innovator multiple source drug that is an oral solid dosage form;

"(ii) the highest additional rebate (calculated as a percentage of average manufacturer price) under this section for any strength of the original single source drug or innovator multiple source drug; and

"(iii) the total number of units of each dosage form and strength of the line extension product paid for under the State plan in the rebate period (as reported by the State).

In this subparagraph, the term 'line extension' means, with respect to a drug, a new formulation of the drug, such as an extended release formulation.".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect as if included in the enactment of the Patient Protection and Affordable Care Act.

Subtitle D—Reducing Fraud, Waste, and Abuse

SEC. 1301. COMMUNITY MENTAL HEALTH CENTERS.

(a) IN GENERAL.—Section 1861(ff)(3)(B) of the Social Security Act (42 U.S.C. 1395x(ff)(3)(B)) is amended—

(1) in clause (ii), by striking "and" at the end;

(2) by redesignating clause (iii) as clause (iv); and

(3) by inserting after clause (ii) the following:

"(iii) provides at least 40 percent of its services to individuals who are not eligible for benefits under this title; and".

(b) RESTRICTION.—Section 1861(ff)(3)(A) of such Act (42 U.S.C. 1395x(ff)(3)(A)) is amended by inserting "other than in an individual's home or in an inpatient or residential setting" before the period.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to items and services furnished on or after the first day of the first calendar quarter that begins at least 12 months after the date of the enactment of this Act.

SEC. 1302. MEDICARE PREPAYMENT MEDICAL REVIEW LIMITATIONS.

Section 1874A(h) of the Social Security Act (42 U.S.C. 1395w–3a(h)) is repealed.

SEC. 1303. FUNDING TO FIGHT FRAUD, WASTE, AND ABUSE.

(a) FUNDING TO FIGHT FRAUD, WASTE, AND ABUSE.—

(1) IN GENERAL.—Section 1817(k) of the Social Security Act (42 U.S.C. 1395i(k)), as amended by section 6402(i) of the Patient Protection and Affordable Care Act, is further amended—

(A) by adding at the end the following new paragraph:

"(8) ADDITIONAL FUNDING.—

"(A) IN GENERAL.—In addition to the funds otherwise appropriated to the Account from the Trust Fund under paragraphs (3)(C) and (4)(A) and for purposes described in paragraphs (3)(C) and (4)(A), there are hereby appropriated to such Account from such Trust Fund the following additional amounts:

"(i) For fiscal year 2011, $95,000,000.

"(ii) For fiscal year 2012, $55,000,000.

"(iii) For each of fiscal years 2013 and 2014, $30,000,000.

"(iv) For each of fiscal years 2015 and 2016, $20,000,000.

"(B) ALLOCATION.—The funds appropriated under this paragraph shall be allocated in the same proportion as the total funding appropriated with respect to paragraphs (3)(A) and (4)(A) was allocated with respect to fiscal year 2010, and shall be available without further appropriation until expended."; and

(B) in paragraph (4)(A), by inserting "for activities described in paragraph (3)(C) and" after "necessary".

(b) MEDICAID INTEGRITY PROGRAM.—Section 1936(e)(1) of such Act (42 U.S.C. 1396–u6(e)(1)) is amended—

(1) in subparagraph (B), by striking at the end "and";

(2) in subparagraph (C)—

(A) by striking "for each fiscal year thereafter" and inserting "for each of fiscal years 2009 and 2010"; and

(B) by striking the period and inserting "; and"; and

(3) by adding at the end the following new subparagraph:

"(D) for each fiscal year after fiscal year 2010, the amount appropriated under this paragraph for the previous fiscal year, increased by the percentage increase in the consumer price index for all urban consumers (all items; United States city average) over the previous year.".

SEC. 1304. 90-DAY PERIOD OF ENHANCED OVERSIGHT FOR INITIAL CLAIMS OF DME SUPPLIERS.

Section 1866(j), as amended by section 6401 of the Patient Protection and Affordable Care Act, is further amended—

(1) by redesignating paragraphs (4) through (7) as paragraphs (5) through (8), respectively; and

(2) by inserting after paragraph (3) the following new paragraph:

"(4) 90-DAY PERIOD OF ENHANCED OVERSIGHT FOR INITIAL CLAIMS OF DME SUPPLIERS.—For periods beginning after January 1, 2011, if the Secretary determines that there is a significant risk of fraudulent activity among suppliers of durable medical equipment, in the case of a supplier of durable medical equipment who is within a category or geographic area under title XVIII identified pursuant to such determination and who is initially enrolling under such title, the Secretary shall, notwithstanding sections 1816(c), 1842(c), and 1869(a)(2), withhold payment under such title with respect to durable medical equipment furnished by such supplier during the 90-day period beginning on the date of the first submission of a claim under such title for durable medical equipment furnished by such supplier.".

Subtitle E—Provisions Relating to Revenue

SEC. 1401. HIGH-COST PLAN EXCISE TAX.

(a) IN GENERAL.—Section 4980I of the Internal Revenue Code of 1986, as added by section 9001 of the Patient Protection and Affordable Care Act and amended by section 10901 of such Act, is amended—

(1) in subsection (b)(3)(B)—

(A) by striking "The annual" and inserting the following:

"(i) IN GENERAL.—Except as provided in clause (ii), the annual"; and

(B) by adding at the end the following new clause:

"(ii) MULTIEMPLOYER PLAN COVERAGE.—Any coverage provided under a multiemployer plan (as defined in section 414(f)) shall be treated as coverage other than self-only coverage.";

(2) in subsection (b)(3)(C)—

(A) by striking "Except as provided in subparagraph (D)—";

(B) in clause (i)—

(i) by striking "2013" each place it appears in the heading and the text and inserting "2018";

(ii) by striking "$8,500" in subclause (I) and inserting "$10,200 multiplied by the health cost adjustment percentage (determined by only taking into account self-only coverage)"; and

(iii) by striking "$23,000" in subclause (II) and inserting "$27,500 multiplied by the health cost adjustment percentage (determined by only taking into account coverage other than self-only coverage)";

(C) by redesignating clauses (ii) and (iii) as clauses (iv) and (v), respectively, and by inserting after clause (i) the following new clauses:

"(ii) HEALTH COST ADJUSTMENT PERCENTAGE.—For purposes of clause (i), the health cost adjustment percentage is equal to 100 percent plus the excess (if any) of—

"(I) the percentage by which the per employee cost for providing coverage under the Blue Cross/Blue Shield standard benefit option under the Federal Employees Health Benefits Plan for plan year 2018 (determined by using the benefit package for such coverage in 2010) exceeds such cost for plan year 2010, over

"(II) 55 percent.

"(iii) AGE AND GENDER ADJUSTMENT.—

"(I) IN GENERAL.—The amount determined under subclause (I) or (II) of clause (i), whichever is applicable, for any taxable period shall be increased by the amount determined under subclause (II).

"(II) AMOUNT DETERMINED.—The amount determined under this subclause is an amount equal to the excess (if any) of—

"(aa) the premium cost of the Blue Cross/Blue Shield standard benefit option under the Federal Employees Health Benefits Plan for the type of coverage provided such individual in such taxable period if priced for the age and gender characteristics of all employees of the individual's employer, over

"(bb) that premium cost for the provision of such coverage under such option in such taxable period if priced for the age and gender characteristics of the national workforce.".

(D) in clause (iv), as redesignated by subparagraph (C)—

(i) by inserting "covered by the plan" after "whose employees"; and

(ii) by striking subclauses (I) and (II) and inserting the following:

"(I) the dollar amount in clause (i)(I) shall be increased by $1,650, and

"(II) the dollar amount in clause (i)(II) shall be increased by $3,450,", and

(E) in clause (v), as redesignated by subparagraph (C)—

(i) by striking "2013" and inserting "2018";

(ii) by striking "clauses (i) and (ii)" and inserting "clauses (i) (after the application of clause (ii)) and (iv)"; and

(iii) by inserting "in the case of determinations for calendar years beginning before 2020" after "1 percentage point" in subclause (II) thereof;

(3) by striking subparagraph (D) of subsection (b)(3);

(4) in subsection (d)(1)(B), by redesignating clause (ii) as clause (iii) and by inserting after clause (i) the following new clause:

"(ii) any coverage under a separate policy, certificate, or contract of insurance which provides benefits substantially all of which are for treatment of the mouth (including any organ or structure within the mouth) or for treatment of the eye, or"; and

(5) in subsection (d), by adding at the end the following new paragraph:

"(3) EMPLOYEE.—The term 'employee' includes any former employee, surviving spouse, or other primary insured individual.".

(b) EFFECTIVE DATES.—

(1) Section 9001(c) of the Patient Protection and Affordable Care Act is amended by striking "2012" and inserting "2017".

(2) Section 10901(c) of the Patient Protection and Affordable Care Act is amended by striking "2012" and inserting "2017".

SEC. 1402. UNEARNED INCOME MEDICARE CONTRIBUTION.

(a) INVESTMENT INCOME.—

(1) IN GENERAL.—Subtitle A of the Internal Revenue Code of 1986 is amended by inserting after chapter 2 the following new chapter:

"CHAPTER 2A—UNEARNED INCOME MEDICARE CONTRIBUTION

"Sec. 1411. Imposition of tax.

"SEC. 1411. IMPOSITION OF TAX.

"(a) IN GENERAL.—Except as provided in subsection (e)—

"(1) APPLICATION TO INDIVIDUALS.—In the case of an individual, there is hereby imposed (in addition to any other tax imposed by this subtitle) for each taxable year a tax equal to 3.8 percent of the lesser of—

"(A) net investment income for such taxable year, or

"(B) the excess (if any) of—

"(i) the modified adjusted gross income for such taxable year, over

"(ii) the threshold amount.

"(2) APPLICATION TO ESTATES AND TRUSTS.—In the case of an estate or trust, there is hereby imposed (in addition to any other tax imposed by this subtitle) for each taxable year a tax of 3.8 percent of the lesser of—

"(A) the undistributed net investment income for such taxable year, or

"(B) the excess (if any) of—

"(i) the adjusted gross income (as defined in section 67(e)) for such taxable year, over

"(ii) the dollar amount at which the highest tax bracket in section 1(e) begins for such taxable year.

"(b) THRESHOLD AMOUNT.—For purposes of this chapter, the term 'threshold amount' means—

"(1) in the case of a taxpayer making a joint return under section 6013 or a surviving spouse (as defined in section 2(a)), $250,000,

"(2) in the case of a married taxpayer (as defined in section 7703) filing a separate return, ½ of the dollar amount determined under paragraph (1), and

"(3) in any other case, $200,000.

"(c) NET INVESTMENT INCOME.—For purposes of this chapter—

"(1) IN GENERAL.—The term 'net investment income' means the excess (if any) of—

"(A) the sum of—

"(i) gross income from interest, dividends, annuities, royalties, and rents, other than such income which is derived in the ordinary course of a trade or business not described in paragraph (2),

"(ii) other gross income derived from a trade or business described in paragraph (2), and

"(iii) net gain (to the extent taken into account in computing taxable income) attributable to the disposition of property other than property held in a trade or business not described in paragraph (2), over

"(B) the deductions allowed by this subtitle which are properly allocable to such gross income or net gain.

"(2) TRADES AND BUSINESSES TO WHICH TAX APPLIES.—A trade or business is described in this paragraph if such trade or business is—

"(A) a passive activity (within the meaning of section 469) with respect to the taxpayer, or

"(B) a trade or business of trading in financial instruments or commodities (as defined in section 475(e)(2)).

"(3) INCOME ON INVESTMENT OF WORKING CAPITAL SUBJECT TO TAX.—A rule similar to the rule of section 469(e)(1)(B) shall apply for purposes of this subsection.

"(4) EXCEPTION FOR CERTAIN ACTIVE INTERESTS IN PARTNERSHIPS AND S CORPORATIONS.—In the case of a disposition of an interest in a partnership or S corporation—

"(A) gain from such disposition shall be taken into account under clause (iii) of paragraph (1)(A) only to the extent of the net gain which would be so taken into account by the transferor if all property of the partnership or S corporation were sold for fair market value immediately before the disposition of such interest, and

"(B) a rule similar to the rule of subparagraph (A) shall apply to a loss from such disposition.

"(5) EXCEPTION FOR DISTRIBUTIONS FROM QUALIFIED PLANS.—The term 'net investment income' shall not include any distribution from a plan or arrangement described in section 401(a), 403(a), 403(b), 408, 408A, or 457(b).

"(6) SPECIAL RULE.—Net investment income shall not include any item taken into account in determining self-employment income for such taxable year on which a tax is imposed by section 1401(b).

"(d) MODIFIED ADJUSTED GROSS INCOME.—For purposes of this chapter, the term 'modified adjusted gross income' means adjusted gross income increased by the excess of—

"(1) the amount excluded from gross income under section 911(a)(1), over

"(2) the amount of any deductions (taken into account in computing adjusted gross income) or exclusions disallowed under section 911(d)(6) with respect to the amounts described in paragraph (1).

"(e) NONAPPLICATION OF SECTION.—This section shall not apply to—

"(1) a nonresident alien, or

"(2) a trust all of the unexpired interests in which are devoted to one or more of the purposes described in section 170(c)(2)(B).".

(2) ESTIMATED TAXES.—Section 6654 of the Internal Revenue Code of 1986 is amended—

(A) in subsection (a), by striking "and the tax under chapter 2" and inserting "the tax under chapter 2, and the tax under chapter 2A"; and

(B) in subsection (f)—

(i) by striking "minus" at the end of paragraph (2) and inserting "plus"; and

(ii) by redesignating paragraph (3) as paragraph (4) and inserting after paragraph (2) the following new paragraph:

"(3) the taxes imposed by chapter 2A, minus".

(3) CLERICAL AMENDMENT.—The table of chapters for subtitle A of chapter 1 of the Internal Revenue Code of 1986 is amended by inserting after the item relating to chapter 2 the following new item:

"CHAPTER 2A—UNEARNED INCOME MEDICARE CONTRIBUTION".

(4) EFFECTIVE DATES.—The amendments made by this subsection shall apply to taxable years beginning after December 31, 2012.

(b) EARNED INCOME.—

(1) THRESHOLD.—

(A) FICA.—Paragraph (2) of section 3101(b) of the Internal Revenue Code of 1986, as added by section 9015 of the Patient Protection and Affordable Care Act and amended by section 10906 of such Act, is amended by striking "and" at the end of subparagraph (A), by redesignating subparagraph (B) as subparagraph (C), and by inserting after subparagraph (A) the following new subparagraph:

"(B) in the case of a married taxpayer (as defined in section 7703) filing a separate return, ½ of the dollar amount determined under subparagraph (A), and".

(B) SECA.—Section 1401(b)(2) of the Internal Revenue Code of 1986, as added by section 9015 of the Patient Protection and Affordable Care Act and amended by section 10906 of such Act, is amended—

(i) in subparagraph (A), by striking "and" at the end of clause (i), by redesignating clause (ii) as clause (iii), and by inserting after clause (i) the following new clause:

"(ii) in the case of a married taxpayer (as defined in section 7703) filing a separate return, ½ of the dollar amount determined under clause (i), and"; and

(ii) in subparagraph (B), by striking "under clauses (i) and (ii)" and inserting "under clause (i), (ii), or (iii) (whichever is applicable)".

(2) ESTIMATED TAXES.—Section 6654 of the Internal Revenue Code of 1986 is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following new subsection:

"(m) SPECIAL RULE FOR MEDICARE TAX.—For purposes of this section, the tax imposed under section 3101(b)(2) (to the extent not withheld) shall be treated as a tax imposed under chapter 2.".

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply with respect to remuneration received, and taxable years beginning after, December 31, 2012.

SEC. 1403. DELAY OF LIMITATION ON HEALTH FLEXIBLE SPENDING ARRANGEMENTS UNDER CAFETERIA PLANS.

(a) IN GENERAL.—Section 10902(b) of the Patient Protection and Affordable Care Act is amended by striking "December 31, 2010" and inserting "December 31, 2012".

(b) INFLATION ADJUSTMENT.—Paragraph (2) of section 125(i) of the Internal Revenue Code of 1986, as added by section 9005 of the Patient Protection and Affordable Care Act and amended by section 10902 of such Act, is amended—

(1) in the matter preceding subparagraph (A), by striking "December 31, 2011" and inserting "December 31, 2013"; and

(2) in subparagraph (B), by striking "2010" and inserting "2012".

SEC. 1404. BRAND NAME PHARMACEUTICALS.

(a) IN GENERAL.—Section 9008 of the Patient Protection and Affordable Care Act is amended—

(1) in subsection (a)(1), by striking "2009" and inserting "2010";

(2) in subsection (b)—

(A) by striking "$2,300,000,000" in paragraph (1) and inserting "the applicable amount"; and

(B) by adding at the end the following new paragraph:

"(4) APPLICABLE AMOUNT.—For purposes of paragraph (1), the applicable amount shall be determined in accordance with the following table:

"Calendar year	Applicable amount
2011	$2,500,000,000
2012	$2,800,000,000
2013	$2,800,000,000
2014	$3,000,000,000
2015	$3,000,000,000
2016	$3,000,000,000
2017	$4,000,000,000
2018	$4,100,000,000
2019 and thereafter	$2,800,000,000.";

(3) in subsection (d), by adding at the end the following new paragraph:

"(3) JOINT AND SEVERAL LIABILITY.—If more than one person is liable for payment of the fee under subsection (a) with respect to a single covered entity by reason of the application of paragraph (2), all such persons shall be jointly and severally liable for payment of such fee."; and

(4) by striking subsection (j) and inserting the following new subsection:

"(j) EFFECTIVE DATE.—This section shall apply to calendar years beginning after December 31, 2010.".

(b) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in section 9008 of the Patient Protection and Affordable Care Act.

SEC. 1405. EXCISE TAX ON MEDICAL DEVICE MANUFACTURERS.

(a) IN GENERAL.—Chapter 32 of the Internal Revenue Code of 1986 is amended—

(1) by inserting after subchapter D the following new subchapter:

"Subchapter E—Medical Devices

"Sec. 4191. Medical devices.

"SEC. 4191. MEDICAL DEVICES.

"(a) IN GENERAL.—There is hereby imposed on the sale of any taxable medical device by the manufacturer, producer, or importer a tax equal to 2.3 percent of the price for which so sold.

"(b) TAXABLE MEDICAL DEVICE.—For purposes of this section—

"(1) IN GENERAL.—The term 'taxable medical device' means any device (as defined in section 201(h) of the Federal Food, Drug, and Cosmetic Act) intended for humans.

"(2) EXEMPTIONS.—Such term shall not include—

"(A) eyeglasses,
"(B) contact lenses,
"(C) hearing aids, and
"(D) any other medical device determined by the Secretary to be of a type which is generally purchased by the general public at retail for individual use.", and

(2) by inserting after the item relating to subchapter D in the table of subchapters for such chapter the following new item:

"SUBCHAPTER E. MEDICAL DEVICES".

(b) CERTAIN EXEMPTIONS NOT TO APPLY.—

(1) Section 4221(a) of the Internal Revenue Code of 1986 is amended by adding at the end the following new sentence: "In the case of the tax imposed by section 4191, paragraphs (3), (4), (5), and (6) shall not apply.".

(2) Section 6416(b)(2) of such Code is amended by adding at the end the following: "In the case of the tax imposed by section 4191, subparagraphs (B), (C), (D), and (E) shall not apply.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales after December 31, 2012.

(d) REPEAL OF SECTION 9009 OF THE PATIENT PROTECTION AND AFFORDABLE CARE ACT.—Section 9009 of the Patient Protection and Affordable Care Act, as amended by section 10904 of such Act, is repealed effective as of the date of enactment of that Act.

SEC. 1406. HEALTH INSURANCE PROVIDERS.

(a) IN GENERAL.—Section 9010 of the Patient Protection and Affordable Care Act, as amended by section 10905 of such Act, is amended—

(1) in subsection (a)(1), by striking "2010" and inserting "2013";

(2) in subsection (b)(2)—

(A) by striking "For purposes of paragraph (1), the net premiums" and inserting "For purposes of paragraph (1)—

"(A) IN GENERAL.—The net premiums"; and

(B) by adding at the end the following subparagraph:

"(B) PARTIAL EXCLUSION FOR CERTAIN EXEMPT ACTIVITIES.—After the application of subparagraph (A), only 50 percent of the remaining net premiums written with respect to health insurance for any United States health risk that are attributable to the activities (other than activities of an unrelated trade or business as defined in section 513 of the Internal Revenue Code of 1986) of any covered entity qualifying under paragraph (3), (4), (26), or (29) of section 501(c) of such Code and exempt from tax under section 501(a) of such Code shall be taken into account.";

(3) in subsection (c)—

(A) by inserting "during the calendar year in which the fee under this section is due" in paragraph (1) after "risk";

(B) in paragraph (2), by striking subparagraphs (C), (D), and (E) and inserting the following new subparagraphs:

"(C) any entity—

"(i) which is incorporated as a nonprofit corporation under a State law,

"(ii) no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in section 501(h) of the Internal Revenue Code of 1986), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office, and

"(iii) more than 80 percent of the gross revenues of which is received from government programs that target low-income, elderly, or disabled populations under titles XVIII, XIX, and XXI of the Social Security Act, and

"(D) any entity which is described in section 501(c)(9) of such Code and which is established by an entity (other than by an employer or employers) for purposes of providing health care benefits.";

(C) in paragraph (3)(A), by striking "subparagraph (C)(i)(I), (D)(i)(I), or (E)(i)" and inserting "subparagraph (C) or (D)"; and

(D) by adding at the end the following new paragraph:

"(4) JOINT AND SEVERAL LIABILITY.—If more than one person is liable for payment of the fee under subsection (a) with respect to a single covered entity by reason of the application of paragraph (3), all such persons shall be jointly and severally liable for payment of such fee.";

(4) by striking subsection (e) and inserting the following:

"(e) APPLICABLE AMOUNT.—For purposes of subsection (b)(1)—

"(1) YEARS BEFORE 2019.—In the case of calendar years beginning before 2019, the applicable amount shall be determined in accordance with the following table:

"Calendar year	Applicable amount
2014	$8,000,000,000
2015	$11,300,000,000
2016	$11,300,000,000
2017	$13,900,000,000
2018	$14,300,000,000.

"(2) YEARS AFTER 2018.—In the case of any calendar year beginning after 2018, the applicable amount shall be the applicable amount for the preceding calendar year increased by the rate of premium growth (within the meaning of section 36B(b)(3)(A)(ii) of the Internal Revenue Code of 1986) for such preceding calendar year.";

(5) in subsection (g), by adding at the end the following new paragraphs:

"(3) ACCURACY-RELATED PENALTY.—

"(A) IN GENERAL.—In the case of any understatement of a covered entity's net premiums written with respect to health insurance for any United States health risk for any calendar year, there shall be paid by the covered entity making such understatement, an amount equal to the excess of—

"(i) the amount of the covered entity's fee under this section for the calendar year the Secretary determines should have been paid in the absence of any such understatement, over

"(ii) the amount of such fee the Secretary determined based on such understatement.

"(B) UNDERSTATEMENT.—For purposes of this paragraph, an understatement of a covered entity's net premiums written with respect to health insurance for any United States health risk for any calendar year is the difference between the amount of such net premiums written as reported on the return filed by the covered entity under paragraph (1) and the amount of such net premiums written that should have been reported on such return.

"(C) TREATMENT OF PENALTY.—The penalty imposed under subparagraph (A) shall be subject to the provisions of subtitle F of the Internal Revenue Code of 1986 that apply to assessable penalties imposed under chapter 68 of such Code.

"(4) TREATMENT OF INFORMATION.—Section 6103 of the Internal Revenue Code of 1986 shall not apply to any information reported under this subsection."; and

(6) by striking subsection (j) and inserting the following new subsection:

"(j) EFFECTIVE DATE.—This section shall apply to calendar years beginning after December 31, 2013.".

(b) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in section 9010 of the Patient Protection and Affordable Care Act.

SEC. 1407. DELAY OF ELIMINATION OF DEDUCTION FOR EXPENSES ALLOCABLE TO MEDICARE PART D SUBSIDY.

Section 9012(b) of the Patient Protection and Affordable Care Act is amended by striking "2010" and inserting "2012".

SEC. 1408. ELIMINATION OF UNINTENDED APPLICATION OF CELLULOSIC BIOFUEL PRODUCER CREDIT.

(a) IN GENERAL.—Section 40(b)(6)(E) of the Internal Revenue Code of 1986 is amended by adding at the end the following new clause:

"(iii) EXCLUSION OF UNPROCESSED FUELS.—The term 'cellulosic biofuel' shall not include any fuel if—

"(I) more than 4 percent of such fuel (determined by weight) is any combination of water and sediment, or

"(II) the ash content of such fuel is more than 1 percent (determined by weight).".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to fuels sold or used on or after January 1, 2010.

SEC. 1409. CODIFICATION OF ECONOMIC SUBSTANCE DOCTRINE AND PENALTIES.

(a) IN GENERAL.—Section 7701 of the Internal Revenue Code of 1986 is amended by redesignating subsection (o) as subsection (p) and by inserting after subsection (n) the following new subsection:

"(o) CLARIFICATION OF ECONOMIC SUBSTANCE DOCTRINE.—

"(1) APPLICATION OF DOCTRINE.—In the case of any transaction to which the economic substance doctrine is relevant, such transaction shall be treated as having economic substance only if—

"(A) the transaction changes in a meaningful way (apart from Federal income tax effects) the taxpayer's economic position, and

"(B) the taxpayer has a substantial purpose (apart from Federal income tax effects) for entering into such transaction.

"(2) SPECIAL RULE WHERE TAXPAYER RELIES ON PROFIT POTENTIAL.—

"(A) IN GENERAL.—The potential for profit of a transaction shall be taken into account in determining whether the requirements of subparagraphs (A) and (B) of paragraph (1) are met with respect to the transaction only if the present value of the reasonably expected pre-tax profit from the transaction is substantial in relation to the present value of the expected net tax benefits that would be allowed if the transaction were respected.

"(B) TREATMENT OF FEES AND FOREIGN TAXES.—Fees and other transaction expenses shall be taken into account as expenses in determining pre-tax profit under subparagraph (A). The Secretary shall issue regulations requiring foreign taxes to be treated as expenses in determining pre-tax profit in appropriate cases.

"(3) STATE AND LOCAL TAX BENEFITS.—For purposes of paragraph (1), any State or local income tax effect which is related to a Federal income tax effect shall be treated in the same manner as a Federal income tax effect.

"(4) FINANCIAL ACCOUNTING BENEFITS.—For purposes of paragraph (1)(B), achieving a financial accounting benefit shall not be taken into account as a purpose for entering into a transaction if the origin of such financial accounting benefit is a reduction of Federal income tax.

"(5) DEFINITIONS AND SPECIAL RULES.—For purposes of this subsection—

"(A) ECONOMIC SUBSTANCE DOCTRINE.—The term 'economic substance doctrine' means the common law doctrine under which tax benefits under subtitle A with respect to a transaction are not allowable if the transaction does not have economic substance or lacks a business purpose.

"(B) EXCEPTION FOR PERSONAL TRANSACTIONS OF INDIVIDUALS.—In the case of an individual, paragraph (1) shall apply only to transactions entered into in connection with a trade or business or an activity engaged in for the production of income.

"(C) DETERMINATION OF APPLICATION OF DOCTRINE NOT AFFECTED.—The determination of whether the economic substance doctrine is relevant to a transaction shall be made in the same manner as if this subsection had never been enacted.

"(D) TRANSACTION.—The term 'transaction' includes a series of transactions.".

(b) PENALTY FOR UNDERPAYMENTS ATTRIBUTABLE TO TRANSACTIONS LACKING ECONOMIC SUBSTANCE.—

(1) IN GENERAL.—Subsection (b) of section 6662 is amended by inserting after paragraph (5) the following new paragraph:

"(6) Any disallowance of claimed tax benefits by reason of a transaction lacking economic substance (within the meaning of section 7701(o)) or failing to meet the requirements of any similar rule of law.".

(2) INCREASED PENALTY FOR NONDISCLOSED TRANSACTIONS.—Section 6662 is amended by adding at the end the following new subsection:

"(i) INCREASE IN PENALTY IN CASE OF NONDISCLOSED NONECONOMIC SUBSTANCE TRANSACTIONS.—

"(1) IN GENERAL.—In the case of any portion of an underpayment which is attributable to one or more nondisclosed noneconomic substance transactions, subsection (a) shall be applied with respect to such portion by substituting '40 percent' for '20 percent'.

"(2) NONDISCLOSED NONECONOMIC SUBSTANCE TRANSACTIONS.—For purposes of this subsection, the term 'nondisclosed noneconomic substance transaction' means any portion of a transaction described in subsection (b)(6) with respect to which the relevant facts affecting the tax treatment are not adequately disclosed in the return nor in a statement attached to the return.

"(3) SPECIAL RULE FOR AMENDED RETURNS.—In no event shall any amendment or supplement to a return of tax be taken into account for purposes of this subsection if the amendment or supplement is filed after the earlier of the date the taxpayer is first contacted by the Secretary regarding the examination of the return or such other date as is specified by the Secretary.".

(3) CONFORMING AMENDMENT.—Subparagraph (B) of section 6662A(e)(2) is amended—

(A) by striking "section 6662(h)" and inserting "subsections (h) or (i) of section 6662"; and

(B) by striking "GROSS VALUATION MISSTATEMENT PENALTY" in the heading and inserting "CERTAIN INCREASED UNDERPAYMENT PENALTIES".

(c) REASONABLE CAUSE EXCEPTION NOT APPLICABLE TO NONECONOMIC SUBSTANCE TRANSACTIONS.—

(1) REASONABLE CAUSE EXCEPTION FOR UNDERPAYMENTS.—Subsection (c) of section 6664 is amended—

(A) by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively;

(B) by striking "paragraph (2)" in paragraph (4)(A), as so redesignated, and inserting "paragraph (3)"; and

(C) by inserting after paragraph (1) the following new paragraph:

"(2) EXCEPTION.—Paragraph (1) shall not apply to any portion of an underpayment which is attributable to one or more transactions described in section 6662(b)(6).".

(2) REASONABLE CAUSE EXCEPTION FOR REPORTABLE TRANSACTION UNDERSTATEMENTS.—Subsection (d) of section 6664 is amended—

(A) by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively;

(B) by striking "paragraph (2)(C)" in paragraph (4), as so redesignated, and inserting "paragraph (3)(C)"; and

(C) by inserting after paragraph (1) the following new paragraph:

"(2) EXCEPTION.—Paragraph (1) shall not apply to any portion of a reportable transaction understatement which is attributable to one or more transactions described in section 6662(b)(6).".

(d) APPLICATION OF PENALTY FOR ERRONEOUS CLAIM FOR REFUND OR CREDIT TO NONECONOMIC SUBSTANCE TRANSACTIONS.—Section 6676 is amended by redesignating subsection (c) as subsection (d) and inserting after subsection (b) the following new subsection:

"(c) NONECONOMIC SUBSTANCE TRANSACTIONS TREATED AS LACKING REASONABLE BASIS.—For purposes of this section, any excessive amount which is attributable to any transaction described in section 6662(b)(6) shall not be treated as having a reasonable basis.".

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to transactions entered into after the date of the enactment of this Act.

(2) UNDERPAYMENTS.—The amendments made by subsections (b) and (c)(1) shall apply to underpayments attributable to transactions entered into after the date of the enactment of this Act.

(3) UNDERSTATEMENTS.—The amendments made by subsection (c)(2) shall apply to understatements attributable to transactions entered into after the date of the enactment of this Act.

(4) REFUNDS AND CREDITS.—The amendment made by subsection (d) shall apply to refunds and credits attributable to transactions entered into after the date of the enactment of this Act.

SEC. 1410. TIME FOR PAYMENT OF CORPORATE ESTIMATED TAXES.

The percentage under paragraph (1) of section 202(b) of the Corporate Estimated Tax Shift Act of 2009 in effect on the date of the enactment of this Act is increased by 15.75 percentage points.

Subtitle F—Other Provisions

SEC. 1501. COMMUNITY COLLEGE AND CAREER TRAINING GRANT PROGRAM.

Section 279(b) of the Trade Act of 1974 (19 U.S.C. 2372a(b)) is amended by striking "SUPPLEMENT" and all that follows through "Funds" and inserting "There are" and by striking "pursuant" and all that follows and inserting "$500,000,000 for each of fiscal years 2011, 2012, 2013, and 2014 to carry out this subchapter, except that the limitations contained in section 278(a)(2) shall not apply to such funds and each State shall receive not less than 0.5 percent of the amount appropriated pursuant to this subsection for each such fiscal year.".

TITLE II—EDUCATION AND HEALTH

Subtitle A—Education

SEC. 2001. SHORT TITLE; REFERENCES.

(a) SHORT TITLE.—This subtitle may be cited as the "SAFRA Act".

(b) REFERENCES.—Except as otherwise expressly provided, whenever in this subtitle an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Higher Education Act of 1965 (20 U.S.C. 1001 et seq.).

PART I—INVESTING IN STUDENTS AND FAMILIES

SEC. 2101. FEDERAL PELL GRANTS.

(a) AMOUNT OF GRANTS.—Section 401(b) (20 U.S.C. 1070a(b)) is amended—

(1) by amending paragraph (2)(A) to read as follows:

"(A) The amount of the Federal Pell Grant for a student eligible under this part shall be—

"(i) the maximum Federal Pell Grant, as specified in the last enacted appropriation Act applicable to that award year, plus

"(ii) the amount of the increase calculated under paragraph (8)(B) for that year, less

"(iii) an amount equal to the amount determined to be the expected family contribution with respect to that student for that year."; and

(2) in paragraph (8)—

(A) in subparagraph (A)—

(i) in the matter preceding clause (i), by striking ", to carry out subparagraph (B) of this paragraph"; and

(ii) by striking clauses (iii) through (x) and inserting the following:

"(iii) to carry out subparagraph (B) of this paragraph, such sums as may be necessary for fiscal year 2010 and each subsequent fiscal year to provide the amount of increase of the maximum Federal Pell Grant required by clauses (ii) and (iii) of subparagraph (B); and

"(iv) to carry out this section, $13,500,000,000 for fiscal year 2011.";

(B) in subparagraph (B)—

(i) in the matter preceding clause (i), by striking "subparagraph (A)" and inserting "clauses (i) through (iii) of subparagraph (A)";

(ii) in clause (ii), by striking "and 2011–2012" and inserting ", 2011–2012, and 2012–2013"; and

(iii) by striking clause (iii) and inserting the following:

"(iii) the amount determined under subparagraph (C) for each succeeding award year."; and

(C) by striking subparagraph (C) and inserting the following:

"(C) ADJUSTMENT AMOUNTS.—

"(i) AWARD YEAR 2013–2014.—For award year 2013–2014, the amount determined under this subparagraph for purposes of subparagraph (B)(iii) shall be equal to—

"(I) $5,550 or the total maximum Federal Pell Grant for the preceding award year (as determined under clause (v)(II)), whichever is greater, increased by a percentage equal to the annual adjustment percentage for award year 2013–2014, reduced by

"(II) $4,860 or the maximum Federal Pell Grant for which a student was eligible for the preceding award year, as specified in the last enacted appropriation Act applicable to that year, whichever is greater; and

"(III) rounded to the nearest $5.

"(ii) AWARD YEARS 2014–2015 THROUGH 2017–2018.—For each of the award years 2014–2015 through 2017–2018, the amount determined under this subparagraph for purposes of subparagraph (B)(iii) shall be equal to—

"(I) the total maximum Federal Pell Grant for the preceding award year (as determined under clause (v)(II)), increased by a percentage equal to the annual adjustment percentage for the award year for which the amount under this subparagraph is being determined, reduced by

"(II) $4,860 or the maximum Federal Pell Grant for which a student was eligible for the preceding award year, as specified in the last enacted appropriation Act applicable to that year, whichever is greater; and

"(III) rounded to the nearest $5.

"(iii) SUBSEQUENT AWARD YEARS.—For award year 2018–2019 and each subsequent award year, the amount determined under this subparagraph for purposes of subparagraph (B)(iii) shall be equal to the amount determined under clause (ii) for award year 2017–2018.

"(iv) DEFINITIONS.—For purposes of this subparagraph—

"(I) the term 'annual adjustment percentage' as applied to an award year, is equal to the estimated percentage change in the Consumer Price Index (as determined by the Secretary, using the definition in section 478(f)) for the most recent calendar year ending prior to the beginning of that award year; and

"(II) the term 'total maximum Federal Pell Grant' as applied to a preceding award year, is equal to the sum of—

"(aa) the maximum Federal Pell Grant for which a student is eligible during an award year, as specified in the last enacted appropriation Act applicable to that preceding award year; and

"(bb) the amount of the increase in the maximum Federal Pell Grant required by this paragraph for that preceding award year.".

(b) CONFORMING AMENDMENTS.—Title IV (20 U.S.C. 1070 et seq.) is further amended—

(1) in section 401(b) (20 U.S.C. 1070a(b))—

(A) in paragraph (4)—

(i) by striking "maximum basic grant level specified in the appropriate appropriation Act" and inserting "maximum amount of a Federal Pell Grant award determined under paragraph (2)(A)"; and

(ii) by striking "such level" each place it appears and inserting "such Federal Pell Grant amount" in each such place; and

(B) in paragraph (6), by striking "the grant level specified in the appropriate Appropriation Act for this subpart for such year" and inserting "the maximum amount of a Federal Pell Grant award determined under paragraph (2)(A), for which a student is eligible during such award year";

(2) in section 402D(d)(1) (20 U.S.C. 1070a–14(d)(1)), by striking "exceed the maximum" and all that follows through "Grant, for" and inserting "exceed the Federal Pell Grant amount, determined under section 401(b)(2)(A), for which a student is eligible, or be less than the minimum Federal Pell Grant amount described in section 401(b)(4), for";

(3) in section 435(a)(5)(A)(i)(I) (20 U.S.C. 1085(a)(5)(A)(i)(I)), by striking "one-half the maximum Federal Pell Grant award for which a student would be eligible" and inserting "one-half the Federal Pell Grant amount, determined under section 401(b)(2)(A), for which a student would be eligible";

(4) in section 483(e)(3)(A)(ii) (20 U.S.C. 1090(e)(3)(A)(ii)), by striking "based on the maximum Federal Pell Grant award at the time of application" and inserting "based on the Federal Pell Grant amount, determined under section 401(b)(2)(A), for which a student is eligible at the time of application";

(5) in section 485E(b)(1)(A) (20 U.S.C. 1092f(b)(1)(A)), by striking "of such students' potential eligibility for a maximum Federal Pell Grant under subpart 1 of part A" and inserting "of such students' potential eligibility for the Federal Pell Grant amount, determined under section 401(b)(2)(A), for which the student would be eligible"; and

(6) in section 894(f)(2)(C)(ii)(I) (20 U.S.C. 1161y(f)(2)(C)(ii)(I)), by striking "the maximum Federal Pell Grant for each award year" and inserting "the Federal Pell Grant amount, determined under section 401(b)(2)(A), for which a student may be eligible for each award year".

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall take effect on July 1, 2010.

SEC. 2102. COLLEGE ACCESS CHALLENGE GRANT PROGRAM.

Section 781 (20 U.S.C. 1141) is amended—

(1) in the first sentence of subsection (a), by striking "$66,000,000" and all that follows through the period and inserting "$150,000,000 for each of the fiscal years 2010 through 2014. The authority to award grants under this section shall expire at the end of fiscal year 2014."; and

(2) in subsection (c)(2), by striking "0.5 percent" and inserting "1.0 percent".

SEC. 2103. INVESTMENT IN HISTORICALLY BLACK COLLEGES AND UNIVERSITIES AND MINORITY-SERVING INSTITUTIONS.

Section 371(b)(1)(A) (20 U.S.C. 1067q(b)(1)(A)) is amended by striking "and 2009." and all that follows and inserting "through 2019. The authority to award grants under this section shall expire at the end of fiscal year 2019.".

PART II—STUDENT LOAN REFORM

SEC. 2201. TERMINATION OF FEDERAL FAMILY EDUCATION LOAN APPROPRIATIONS.

Section 421 (20 U.S.C. 1071) is amended—

(1) in subsection (b), in the first sentence of the matter following paragraph (6), by inserting ", except that no sums may be expended after June 30, 2010, with respect to loans under this part for which the first disbursement is after such date" after "expended"; and

(2) by adding at the end the following new subsection:

"(d) TERMINATION OF AUTHORITY TO MAKE OR INSURE NEW LOANS.—Notwithstanding paragraphs (1) through (6) of subsection (b) or any other provision of law—

"(1) no new loans (including consolidation loans) may be made or insured under this part after June 30, 2010; and

"(2) no funds are authorized to be appropriated, or may be expended, under this Act or any other Act to make or insure loans under this part (including consolidation loans) for which the first disbursement is after June 30, 2010,

except as expressly authorized by an Act of Congress enacted after the date of enactment of the SAFRA Act.".

SEC. 2202. TERMINATION OF FEDERAL LOAN INSURANCE PROGRAM.

Section 424(a) (20 U.S.C. 1074(a)) is amended by striking "September 30, 1976," and all that follows and inserting "September 30, 1976, for each of the succeeding fiscal years ending prior to October 1, 2009, and for the period from October 1, 2009, to June 30, 2010, for loans first disbursed on or before June 30, 2010.".

SEC. 2203. TERMINATION OF APPLICABLE INTEREST RATES.

Section 427A(l) (20 U.S.C. 1077a(l)) is amended—

(1) in the subsection heading, by inserting "AND BEFORE JULY 1, 2010" after "2006";

(2) in paragraph (1), by inserting "and before July 1, 2010," after "July 1, 2006,";

(3) in paragraph (2), by inserting "and before July 1, 2010," after "July 1, 2006,";

(4) in paragraph (3), by inserting "and that was disbursed before July 1, 2010," after "July 1, 2006,"; and

(5) in paragraph (4)—

(A) in the matter preceding subparagraph (A), by striking "July 1, 2012" and inserting "July 1, 2010"; and

(B) by repealing subparagraphs (D) and (E).

SEC. 2204. TERMINATION OF FEDERAL PAYMENTS TO REDUCE STUDENT INTEREST COSTS.

(a) HIGHER EDUCATION ACT OF 1965.—Section 428 (20 U.S.C. 1078) is amended—

(1) in subsection (a)—

(A) in paragraph (1), in the matter preceding subparagraph (A), by inserting "for which the first disbursement is made before July 1, 2010, and" after "eligible institution"; and

(B) in paragraph (5), by striking "September 30, 2014," and all that follows through the period and inserting "June 30, 2010.";

(2) in subsection (b)(1)—

(A) in subparagraph (G)(ii), by inserting "and before July 1, 2010," after "July 1, 2006,"; and

(B) in subparagraph (H)(ii), by inserting "and that are first disbursed before July 1, 2010," after "July 1, 2006,";

(3) in subsection (f)(1)(A)(ii)—

(A) by striking "during fiscal years beginning"; and

(B) by inserting "and first disbursed before July 1, 2010," after "October 1, 2003,"; and

(4) in subsection (j)(1), by inserting ", before July 1, 2010," after "section 435(d)(1)(D) of this Act shall".

(b) COLLEGE COST REDUCTION AND ACCESS ACT.—Section 303 of the College Cost Reduction and Access Act (Public Law 110–84) is repealed.

SEC. 2205. TERMINATION OF FFEL PLUS LOANS.

Section 428B(a)(1) (20 U.S.C. 1078–2(a)(1)) is amended by striking "A graduate" and inserting "Prior to July 1, 2010, a graduate".

SEC. 2206. FEDERAL CONSOLIDATION LOANS.

(a) IN GENERAL.—Section 428C (20 U.S.C. 1078–3) is amended—

(1) in subsection (a)(4)(A), by inserting ", and first disbursed before July 1, 2010" after "under this part";

(2) in subsection (b)—

(A) in paragraph (1)(E), by inserting before the semicolon ", and before July 1, 2010"; and

(B) in paragraph (5), by striking "In the event that" and inserting "If, before July 1, 2010,";

(3) in subsection (c)(1)—

(A) in subparagraph (A)(ii), by inserting "and that is disbursed before July 1, 2010," after "2006,"; and

(B) in subparagraph (C), by inserting "and disbursed before July 1, 2010," after "1994,"; and

(4) in subsection (e), by striking "September 30, 2014." and inserting "June 30, 2010. No loan may be made under this section for which the disbursement is on or after July 1, 2010.".

(b) TEMPORARY LOAN CONSOLIDATION AUTHORITY.—Part D of title IV (20 U.S.C. 1087a et seq.) is amended by inserting after section 459A (20 U.S.C. 1087i) the following:

"SEC. 459B. TEMPORARY LOAN CONSOLIDATION AUTHORITY.

"(a) TEMPORARY LOAN CONSOLIDATION AUTHORITY.—

"(1) IN GENERAL.—A borrower who has 1 or more loans in 2 or more of the categories described in paragraph (2), and who has not yet entered repayment on 1 or more of those loans in any of the categories, may consolidate all of the loans of the borrower that are described in paragraph (2) into a Federal Direct Consolidation Loan during the period described in paragraph (3).

"(2) CATEGORIES OF LOANS THAT MAY BE CONSOLIDATED.—The categories of loans that may be consolidated under paragraph (1) are—

"(A) loans made under this part;

"(B) loans purchased by the Secretary pursuant to section 459A; and

"(C) loans made under part B that are held by an eligible lender, as such term is defined in section 435(d).

"(3) TIME PERIOD IN WHICH LOANS MAY BE CONSOLIDATED.—The Secretary may make a Federal Direct Consolidation Loan under this section to a borrower whose application for such Federal Direct Consolidation Loan is received on or after July 1, 2010, and before July 1, 2011.

"(b) TERMS OF LOANS.—A Federal Direct Consolidation Loan made under this section shall have the same terms and conditions as a Federal Direct Consolidation Loan made under section 455(g), except that—

"(1) in determining the applicable rate of interest on the Federal Direct Consolidation Loan made under this section (other than on a Federal Direct Consolidation Loan described in paragraph (2)), section 427A(l)(3) shall be applied without rounding the weighted average of the interest rate on the loans consolidated to the nearest higher one-eighth of 1 percent as described in subparagraph (A) of section 427A(l)(3); and

"(2) if a Federal Direct Consolidation Loan made under this section that repays a loan which is subject to an interest rate determined under section 427A(g)(2), (j)(2), or (k)(2), then the interest rate for such Federal Direct Consolidation Loan shall be calculated—

"(A) by using the applicable rate of interest described in section 427A(g)(2), (j)(2), or (k)(2), respectively; and

"(B) in accordance with section 427A(l)(3).".

SEC. 2207. TERMINATION OF UNSUBSIDIZED STAFFORD LOANS FOR MIDDLE-INCOME BORROWERS.

Section 428H (20 U.S.C. 1078–8) is amended—

(1) in subsection (a), by inserting "that are first disbursed before July 1, 2010," after "under this part";

(2) in subsection (b)—

(A) by striking "Any student" and inserting "Prior to July 1, 2010, any student"; and

(B) by inserting "for which the first disbursement is made before such date" after "unsubsidized Federal Stafford Loan"; and

(3) in subsection (h), by inserting "and that are first disbursed before July 1, 2010," after "July 1, 2006,".

SEC. 2208. TERMINATION OF SPECIAL ALLOWANCES.

Section 438 (20 U.S.C. 1087–1) is amended—

(1) in subsection (b)(2)(I)—

(A) in the subclause heading, by inserting ", AND BEFORE JULY 1, 2010" after "2000";

(B) in clause (i), by inserting "and before July 1, 2010," after "2000,";

(C) in clause (ii)(II), by inserting "and before July 1, 2010," after "2006,";

(D) in clause (iii), by inserting "and before July 1, 2010," after "2000,";

(E) in clause (iv), by inserting "and that is disbursed before July 1, 2010," after "2000,";

(F) in clause (v)(I), by inserting "and before July 1, 2010," after "2006,"; and

(G) in clause (vi)—

(i) in the clause heading, by inserting ", AND BEFORE JULY 1, 2010" after "2007"; and

(ii) in the matter preceding subclause (I), by inserting "and before July 1, 2010," after "2007,";

(2) in subsection (c)—

(A) in paragraph (2)(B)—

(i) in clause (iii), by inserting "and" after the semicolon;

(ii) in clause (iv), by striking "; and" and inserting a period; and

(iii) by striking clause (v); and

(B) in paragraph (6), by inserting "and first disbursed before July 1, 2010," after "1992,"; and

(3) in subsection (d)(2)(B), by inserting ", and before July 1, 2010" after "2007".

SEC. 2209. ORIGINATION OF DIRECT LOANS AT INSTITUTIONS OUTSIDE THE UNITED STATES.

(a) LOANS FOR STUDENTS ATTENDING INSTITUTIONS OUTSIDE THE UNITED STATES.—Section 452 (20 U.S.C. 1087b) is amended by adding at the end the following:

"(d) INSTITUTIONS OUTSIDE THE UNITED STATES.—Loan funds for students (and parents of students) attending institutions outside the United States shall be disbursed through a financial institution located or operating in the United States and designated by the Secretary to serve as the agent of such institutions with respect to the receipt of the disbursements of such loan funds and the transfer of such funds to such institutions. To be eligible to receive funds under this part, an institution outside the United States shall make arrangements with the agent designated by the Secretary under this subsection to receive funds under this part.".

(b) CONFORMING AMENDMENTS.—

(1) AMENDMENTS.—Section 102 (20 U.S.C. 1002), as amended by section 102 of the Higher Education Opportunity Act (Public Law 110–315) and section 101 of Public Law 111–39, is amended—

(A) by striking "part B" each place the term appears and inserting "part D";

(B) in subsection (a)(1)(C), by inserting ", consistent with the requirements of section 452(d)" before the period at the end; and

(C) in subsection (a)(2)(A)—

(i) in the second sentence of the matter preceding clause (i), by striking "made, insured, or guaranteed" and inserting "made"; and

(ii) in clause (iii)—

(I) in subclause (III), by striking "only Federal Stafford" and all that follows through "section 428B" and inserting "only Federal Direct Stafford Loans under section 455(a)(2)(A), Federal Direct Unsubsidized Stafford Loans under section 455(a)(2)(D), or Federal Direct PLUS Loans under section 455(a)(2)(B)"; and

(II) in subclause (V), by striking "a Federal Stafford" and all that follows through "section 428B" and inserting "a Federal Direct Stafford Loan under section 455(a)(2)(A), a Federal Direct Unsubsidized Stafford Loan under section 455(a)(2)(D), or a Federal Direct PLUS Loan under section 455(a)(2)(B)".

(2) EFFECTIVE DATE.—The amendments made by subparagraph (C) of paragraph (1) shall be effective on July 1, 2010, as if enacted as part of section 102(a)(1) of the Higher Education Opportunity Act (Public Law 110–315) and subject to section 102(e) of such Act as amended by section 101(a)(2) of Public Law 111–39 (20 U.S.C. 1002 note).

SEC. 2210. CONFORMING AMENDMENTS.

(a) AMENDMENTS.—Section 454 (20 U.S.C. 1087d) is amended—

(1) in subsection (a)—

(A) by striking paragraph (4); and

(B) by redesignating paragraphs (5) through (7) as paragraphs (4) through (6), respectively; and

(2) in subsection (b)(2), by striking "(5), (6), and (7)" and inserting "(5), and (6)".

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall take effect on July 1, 2010.

SEC. 2211. TERMS AND CONDITIONS OF LOANS.

(a) IN GENERAL.—Section 455 (20 U.S.C. 1087e) is amended—

(1) in subsection (a)(1), by inserting ", and first disbursed on June 30, 2010," before "under sections 428"; and

(2) in subsection (g)—

(A) by inserting ", including any loan made under part B and first disbursed before July 1, 2010" after "section 428C(a)(4)"; and

(B) by striking the third sentence.

(b) EFFECTIVE DATE.—The amendment made by subsection (a)(1) shall apply with respect to loans first disbursed under part D of title IV of the Higher Education Act of 1965 (20 U.S.C. 1087a et seq.) on or after July 1, 2010.

SEC. 2212. CONTRACTS; MANDATORY FUNDS.

(a) CONTRACTS.—Section 456 (20 U.S.C. 1087f) is amended—

(1) in subsection (a)—

(A) by inserting after paragraph (3) the following new paragraph:

"(4) SERVICING BY ELIGIBLE NOT-FOR-PROFIT SERVICERS.—

"(A) SERVICING CONTRACTS.—

"(i) IN GENERAL.—The Secretary shall contract with each eligible not-for-profit servicer to service loans originated under this part, if the servicer—

"(I) meets the standards for servicing Federal assets that apply to contracts awarded pursuant to paragraph (1); and

"(II) has the capacity to service the applicable loan volume allocation described in subparagraph (B).

"(ii) COMPETITIVE MARKET RATE DETERMINATION FOR FIRST 100,000 BORROWER ACCOUNTS.—The Secretary shall establish a separate pricing tier for each of the first 100,000 borrower loan accounts at a competitive market rate.

"(iii) INELIGIBILITY.—An eligible not-for-profit servicer shall no longer be eligible for a contract under this paragraph after July 1, 2014, if—

"(I) the servicer has not been awarded such a contract before that date; or

"(II) the servicer's contract was terminated, and the servicer had not reapplied for, and been awarded, a contract under this paragraph.

"(B) ALLOCATIONS.—

"(i) IN GENERAL.—The Secretary shall (except as provided in clause (ii)) allocate to an eligible not-for-profit servicer, subject to the contract of such servicer described in subparagraph (A), the servicing rights for the loan accounts of 100,000 borrowers (including borrowers who borrowed loans in a prior year that were serviced by the servicer).

"(ii) SERVICER ALLOCATION.—The Secretary may reallocate, increase, reduce, or terminate an eligible not-for-profit servicer's allocation of servicing rights under clause (i) based on the performance of such servicer, on the same terms as loan allocations provided by contracts awarded pursuant to paragraph (1)."; and

(2) by adding at the end the following:

"(c) DEFINITION OF ELIGIBLE NOT-FOR-PROFIT SERVICER.—In this section:

"(1) IN GENERAL.—The term 'eligible not-for-profit servicer' means an entity—

"(A) that is not owned or controlled in whole or in part by—

"(i) a for-profit entity; or

"(ii) a nonprofit entity having its principal place of business in another State; and

"(B) that—

"(i) as of July 1, 2009—

"(I) meets the definition of an eligible not-for-profit holder under section 435(p), except that such term does not include eligible lenders described in paragraph (1)(D) of such section; and

"(II) was performing, or had entered into a contract with a third party servicer (as such term is defined in section 481(c)) who was performing, student loan servicing functions for loans made under part B of this title;

"(ii) notwithstanding clause (i), as of July 1, 2009—

"(I) is the sole beneficial owner of a loan for which the special allowance rate is calculated under section 438(b)(2)(I)(vi)(II) because the loan is held by an eligible lender trustee that is an eligible not-for-profit holder as defined under section 435(p)(1)(D); and

"(II) was performing, or had entered into a contract with a third party servicer (as such term is defined in section 481(c)) who was performing, student loan servicing functions for loans made under part B of this title; or

"(iii) is an affiliated entity of an eligible not-for-profit servicer described in clause (i) or (ii) that—

"(I) directly employs, or will directly employ (on or before the date the entity begins servicing loans under a contract awarded by the Secretary pursuant to subsection (a)(3)(A)), the majority of individuals who perform borrower-specific student loan servicing functions; and

"(II) as of July 1, 2009, was performing, or had entered into a contract with a third party servicer (as such term is defined in section 481(c)) who was performing, student loan servicing functions for loans made under part B of this title.

"(2) AFFILIATED ENTITY.—For the purposes of paragraph (1), the term 'affiliated entity'—

"(A) means an entity contracted to perform services for an eligible not-for-profit servicer that—

"(i) is a nonprofit entity or is wholly owned by a nonprofit entity; and

"(ii) is not owned or controlled, in whole or in part, by—

"(I) a for-profit entity; or

"(II) an entity having its principal place of business in another State; and

"(B) may include an affiliated entity that is established by an eligible not-for-profit servicer after the date of enactment of the SAFRA Act, if such affiliated entity is otherwise described in paragraph (1)(B)(iii)(I) and subparagraph (A) of this paragraph.".

(b) MANDATORY FUNDS.—

(1) AMENDMENTS.—Section 458(a) (20 U.S.C. 1087h(a)) is amended—

(A) by redesignating paragraph (5) as paragraph (8);

(B) by redesignating paragraphs (2) through (4) as paragraphs (3) through (5), respectively;

(C) by inserting after paragraph (1) the following new paragraph:

"(2) MANDATORY FUNDS FOR ELIGIBLE NOT-FOR-PROFIT SERVICERS.—For fiscal years 2010 through 2019, there shall be available to the Secretary, in addition to any other amounts appropriated to carry out this paragraph and out of any money in the Treasury not otherwise appropriated, funds to be obligated for administrative costs of servicing contracts with eligible not-for-profit servicers as described in section 456."; and

(D) by inserting after paragraph (5), as redesignated by subparagraph (B) of this paragraph, the following:

"(6) TECHNICAL ASSISTANCE TO INSTITUTIONS OF HIGHER EDUCATION.—

"(A) PROVISION OF ASSISTANCE.—The Secretary shall provide institutions of higher education participating, or seeking to participate, in the loan programs under this part with technical assistance in establishing and administering such programs.

"(B) FUNDS.—There are authorized to be appropriated, and there are appropriated, to carry out this paragraph (in addition to any other amounts appropriated to carry out this paragraph and out of any money in the Treasury not otherwise appropriated), $50,000,000 for fiscal year 2010.

"(C) DEFINITION.—In this paragraph, the term 'assistance' means the provision of technical support, training, materials, technical assistance, and financial assistance.

"(7) ADDITIONAL PAYMENTS.—

"(A) PROVISION OF ASSISTANCE.—The Secretary shall provide payments to loan servicers for retaining jobs at locations in the United States where such servicers were operating under part B on January 1, 2010.

"(B) FUNDS.—There are authorized to be appropriated, and there are appropriated, to carry out this paragraph (in addition to any other amounts appropriated to carry out this paragraph and out of any money in the Treasury not otherwise appropriated), $25,000,000 for each of the fiscal years 2010 and 2011.".

(2) CONFORMING AMENDMENT.—Section 458 (20 U.S.C. 1087h) is further amended by striking "subsection (a)(3)" in subsection (b) and inserting "subsection (a)(4)".

SEC. 2213. INCOME-BASED REPAYMENT.

Section 493C (20 U.S.C. 1098e) is amended by adding at the end the following new subsection:

"(e) SPECIAL TERMS FOR NEW BORROWERS ON AND AFTER JULY 1, 2014.—With respect to any loan made to a new borrower on or after July 1, 2014—

"(1) subsection (a)(3)(B) shall be applied by substituting '10 percent' for '15 percent'; and

"(2) subsection (b)(7)(B) shall be applied by substituting '20 years' for '25 years'.".

Subtitle B—Health

SEC. 2301. INSURANCE REFORMS.

(a) EXTENDING CERTAIN INSURANCE REFORMS TO GRANDFATHERED PLANS.—Section 1251(a) of the Patient Protection and Affordable Care Act, as added by section 10103(d) of such Act, is amended by adding at the end the following:

"(4) APPLICATION OF CERTAIN PROVISIONS.—

"(A) IN GENERAL.—The following provisions of the Public Health Service Act (as added by this title) shall

apply to grandfathered health plans for plan years beginning with the first plan year to which such provisions would otherwise apply:

"(i) Section 2708 (relating to excessive waiting periods).

"(ii) Those provisions of section 2711 relating to lifetime limits.

"(iii) Section 2712 (relating to rescissions).

"(iv) Section 2714 (relating to extension of dependent coverage).

"(B) PROVISIONS APPLICABLE ONLY TO GROUP HEALTH PLANS.—

"(i) PROVISIONS DESCRIBED.—Those provisions of section 2711 relating to annual limits and the provisions of section 2704 (relating to pre-existing condition exclusions) of the Public Health Service Act (as added by this subtitle) shall apply to grandfathered health plans that are group health plans for plan years beginning with the first plan year to which such provisions otherwise apply.

"(ii) ADULT CHILD COVERAGE.—For plan years beginning before January 1, 2014, the provisions of section 2714 of the Public Health Service Act (as added by this subtitle) shall apply in the case of an adult child with respect to a grandfathered health plan that is a group health plan only if such adult child is not eligible to enroll in an eligible employer-sponsored health plan (as defined in section 5000A(f)(2) of the Internal Revenue Code of 1986) other than such grandfathered health plan.".

(b) CLARIFICATION REGARDING DEPENDENT COVERAGE.—Section 2714(a) of the Public Health Service Act, as added by section 1001(5) of the Patient Protection and Affordable Care Act, is amended by striking "(who is not married)".

SEC. 2302. DRUGS PURCHASED BY COVERED ENTITIES.

Section 340B of the Public Health Service Act (42 U.S.C. 256b), as amended by sections 7101 and 7102 of the Patient Protection and Affordable Care Act, is amended—

(1) in subsection (a)—

(A) in paragraphs (1), (2), (5), (7), and (9), by striking the terms "covered drug" and "covered drugs" each place either term appears and inserting "covered outpatient drug" or "covered outpatient drugs", respectively;

(B) in paragraph (4)(L)—

(i) in clause (i), by striking "and" at the end;

(ii) in clause (ii), by striking the period and inserting "; and"; and

(iii) by inserting after clause (ii), the following:

"(iii) does not obtain covered outpatient drugs through a group purchasing organization or other group purchasing arrangement."; and

(C) in paragraph (5)—

(i) by striking subparagraph (C);

(ii) by redesignating subparagraphs (D) and (E) as subparagraphs (C) and (D), respectively; and

(iii) in subparagraph (D), as so redesignated, by striking "subparagraph (D)" and inserting "subparagraph (C)";

(2) by striking subsection (c);

(3) in subsection (d)—

(A) by striking "covered drugs" each place it appears and inserting "covered outpatient drugs";

(B) by striking "(a)(5)(D)" each place it appears and inserting "(a)(5)(C)"; and

(C) by striking "(a)(5)(E)" each place it appears and inserting "(a)(5)(D)"; and

(4) by inserting after subsection (d) the following:

"(e) EXCLUSION OF ORPHAN DRUGS FOR CERTAIN COVERED ENTITIES.—For covered entities described in subparagraph (M), (N), or (O) of subsection (a)(4), the term 'covered outpatient drug' shall not include a drug designated by the Secretary under section 526 of the Federal Food, Drug, and Cosmetic Act for a rare disease or condition.".

SEC. 2303. COMMUNITY HEALTH CENTERS.

Section 10503(b)(1) of the Patient Protection and Affordable Care Act is amended—

(1) in subparagraph (A), by striking "700,000,000" and inserting "1,000,000,000";

(2) in subparagraph (B), by striking "800,000,000" and inserting "1,200,000,000";

(3) in subparagraph (C), by striking "1,000,000,000" and inserting "1,500,000,000";

(4) in subparagraph (D), by striking "1,600,000,000" and inserting "2,200,000,000"; and

(5) in subparagraph (E), by striking "2,900,000,000" and inserting "3,600,000,000".

Speaker of the House of Representatives.

Vice President of the United States and President of the Senate.