



July 8, 2008

Honorable Judd Gregg
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Senator:

At your request, CBO has prepared additional information regarding the effect of H.R. 6331, the Medicare Improvement for Patients and Providers Act of 2008, on enrollment in Medicare Advantage plans in 2013.

As passed by the House of Representatives, H.R. 6331 would change the Medicare Advantage (MA) program in several ways. It would phase out payments to MA organizations for the costs of indirect medical expenses (IME) that are currently paid both to hospitals and plans. The bill also would require private-fee-for-service (PFFS) plans to establish provider networks for both individual and employer-group products. Individual PFFS plans in areas with fewer than two network plans would be exempted and able to continue operating without networks (through an arrangement known as “deeming”). CBO estimates that these policies combined will reduce federal spending by \$12.5 billion over the 2009-2013 period and \$47.5 billion over the 2009-2018 period. The bill also would extend and modify the authority for MA organizations to offer plans for special needs individuals and rescind all but \$1 of the stabilization fund for regional MA plans.

Restricting the ability of PFFS plans to operate without networks and reducing the payments to plans would induce fewer beneficiaries to enroll in MA relative to CBO’s baseline projections. Overall, CBO estimates that H.R. 6331 would decrease enrollment in MA by about 2.3 million individuals in 2013 relative to our baseline projections. Those 2.3 million individuals would instead enroll in traditional fee-for-service Medicare. CBO projects that, under current law, total enrollment in MA will be 14.3 million in 2013, of which

5 million individuals will be enrolled in PFFS plans. In other words, under H.R. 6331, enrollment in MA would total roughly 12 million in 2013. (There are currently 9.6 million beneficiaries enrolled in Medicare Advantage plans, including 2.3 million beneficiaries enrolled in PFFS plans.)

Specifically, CBO estimates that in response to the bill's restrictions on PFFS plans, 1.8 million fewer enrollees would choose MA plans in 2013; an estimated 1.5 million of that number would come from individual plans and another 300,000 enrollees from employer-group plans. Thus, about 3.2 million of the 5 million PFFS enrollees in CBO's baseline would remain in MA in 2013. Those enrollees would be spread among all types of plans, including PFFS, local health maintenance organizations (HMOs), or preferred provider organizations (PPOs).

The phase-out of IME double payments would reduce MA enrollment by an estimated 500,000 in 2013 across all types of MA plans. The provision extending authority for specialized plans for special needs individuals would increase enrollment in MA HMOs and PPOs in 2013 by less than 100,000 people.

You also asked for our estimate of the number of Medicare beneficiaries that would enroll in Medicare Advantage plans rather than re-enroll in traditional fee-for-service Medicare. As noted above, CBO estimates that 12 million of the 14.3 million enrollees who are projected to enroll in MA in 2013 under baseline projections would remain enrolled in Medicare Advantage under H.R. 6331. The provisions modifying PFFS would encourage some of the remaining enrollees to switch from PFFS to HMO or PPO plans; however, CBO has not estimated the ultimate distribution of enrollment by plan type that would result under H.R. 6331.

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I hope this information is helpful to you. The CBO staff contacts for further information are Tim Gronniger and Mindy Cohen.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter R. Orszag". The signature is fluid and cursive, with the first name "Peter" and last name "Orszag" clearly distinguishable.

Peter R. Orszag
Director

cc: Honorable Kent Conrad
Chairman
Committee on the Budget

Identical letter sent to the Honorable Charles E. Grassley.