



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

July 23, 2008

**H.R. 6331
Medicare Improvements for Patients and Providers Act of 2008**

Enacted as Public Law 110-275 on July 15, 2008

SUMMARY

H.R. 6331, the Medicare Improvements for Patients and Providers Act (MIPPA) of 2008, cancels a reduction in Medicare's payment rates for physicians' services that went into effect on July 1, 2008, and extends other expiring provisions governing the Medicare program. It also will increase payment rates for physicians' services for 2009, expand eligibility for low-income benefits, and reduce payments to Medicare Advantage plans.

CBO estimates that enacting H.R. 6331 will increase direct spending by less than \$50 million over the 2008-2013 period and by \$0.3 billion over the 2008-2018 period. In addition, the Joint Committee on Taxation (JCT) estimates that the act will increase federal revenues by \$0.2 billion over the 2008-2013 period and by \$0.4 billion over the 2008-2018 period. In total, CBO estimates that the act will reduce deficits (or increase surpluses) by \$0.1 billion over the 2008-2013 period and by less than \$50 million over the 2008-2018 period.

The act provides mandatory funding to implement its provisions. Therefore, CBO estimates that implementing H.R. 6331 would not affect spending subject to appropriation.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the impact of H.R. 6331 on direct spending and revenues is shown in the following table. The costs of this legislation fall within budget functions 550 (health), 570 (Medicare), and 600 (income security).

By Fiscal Year, in Billions of Dollars

2008- 2008-
2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2013 2018

CHANGES IN DIRECT SPENDING

Medicare

Physician Fee Schedule	1.5	5.7	2.2	0	0	0	0	0	0	0	0	9.4	9.4
Electronic Prescribing	0	*	0.1	*	-0.1	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4	-0.2	-2.1
Other Physician Payments	0.1	0.7	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.6	2.0
Preventive and Mental Health													
Services	0	*	0.2	0.4	0.6	0.7	1.0	1.2	1.4	1.5	1.7	1.9	8.7
Low-Income Programs	0.1	0.4	0.2	0.3	0.4	0.7	0.8	1.0	1.1	1.3	1.4	2.2	7.8
Medicare Advantage	0	0	-0.6	-2.8	-3.7	-6.4	-6.2	-6.3	-7.5	-7.6	-7.6	-13.6	-48.7
Therapy Caps	0.1	0.7	0.4	0	0	0	0	0	0	0	0	1.2	1.2
PAQI and MIF	0	0	0	0	0	-3.1	2.6	7.0	7.1	4.3	0.9	-3.1	18.9
Other Medicare	0.1	0.2	0.3	0.4	*	*	0.1	0.4	0.6	0.7	0.8	0.9	3.7
Medicare Advantage													
Interaction	0	0	1.1	0.3	0.2	0.1	0.2	0.3	0.4	0.5	0.5	1.8	3.7
Part B Premium Interaction	<u>-0</u>	<u>-2.2</u>	<u>-1.2</u>	<u>-0.4</u>	<u>-0.1</u>	<u>-0.1</u>	<u>-0.2</u>	<u>-0.3</u>	<u>-0.4</u>	<u>-0.5</u>	<u>-0.6</u>	<u>-4.1</u>	<u>-6.0</u>
Total Medicare	1.9	5.5	3.1	-1.7	-2.7	-8.2	-1.8	2.9	2.4	-0.2	-3.0	-2.0	-1.7

Medicaid

* 0.7 0.4 * * * * * * * * * * * 1.1 1.0

Other Programs

0 0.2 0.2 0.3 0.2 * * * * * * * 1.0 1.0

Total Changes in Direct Spending

1.9 6.5 3.7 -1.4 -2.5 -8.2 -1.8 2.9 2.4 -0.2 -3.0 * 0.3

CHANGES IN REVENUES

Medicare Payment Levy

* * * * * * * * * * * * 0.2 0.4

CHANGES IN DEFICITS OR SURPLUSES

Total Changes^a

1.9 6.5 3.6 -1.4 -2.5 -8.2 -1.8 2.9 2.3 -0.2 -3.1 -0.1 *

Notes: Components may not sum to totals because of rounding.

PAQI = Physician Assistance and Quality Initiative fund; MIF = Medicare Improvement Fund.

* = between -\$50 million and \$50 million.

a. Negative numbers indicate a reduction in the deficit or increase in the surplus.

BASIS OF ESTIMATE

The act contains provisions that will both increase and decrease direct spending, as well as a provision that will increase federal revenues. CBO estimates the net budgetary impact of the legislation will be to reduce deficits (or increase surpluses) by \$0.1 billion over the 2008-2013 period and by less than \$50 million over the 2008-2018 period.

Direct Spending

Provisions affecting Medicare beneficiaries and providers. CBO estimates that H.R. 6331 will increase Medicare spending by about \$11 billion through fiscal year 2010 and then reduce Medicare spending in most subsequent years. In total, CBO estimates that the Medicare provisions will reduce direct spending by \$2.0 billion over the 2008-2013 period and by \$1.7 billion over the 2008-2018 period.

Physician Fee Schedule. H.R. 6331 cancels a 10.6 percent reduction in Medicare's payment rates for physician's services that was scheduled to go into effect on July 1, 2008. The act freezes those payment rates for the remainder of the year and increases them by 1.1 percent in January 2009. Future payment rates beyond 2009 will revert to the levels under prior law, necessitating a 21 percent reduction in payment rates under the physician fee schedule in 2010. CBO estimates that provision will increase Medicare spending by \$1.5 billion for the remainder of 2008 and by \$9.4 billion over both the 2008-2013 and 2008-2018 periods.

Electronic Prescribing. H.R. 6331 will require Medicare to make incentive payments to physicians for electronic prescribing beginning in 2010. Physicians who meet the electronic-prescribing criteria established in the act will receive bonus payments of 2 percent of allowed charges in 2009 and 2010, 1 percent in 2011 and 2012, and 0.5 percent in 2013. Beginning in 2012, physicians who do not use electronic prescribing will be subject to a 1 percent reduction in payments. That reduction will increase to 1.5 percent in 2013 and 2 percent for 2014 and each subsequent year. Additionally, the use of electronic prescribing is estimated to slightly increase the use of generic drugs in Part D, lowering Part D spending. CBO estimates that the net budgetary effect of the electronic prescribing provision will be to reduce Medicare spending by \$0.2 billion over the 2008-2013 period and \$2.1 billion over the 2008-2018 period.

Other Payments to Physicians. MIPPA extends several expiring provisions related to payments for physician's services, including the physician quality reporting system, the floor on the Medicare work geographic adjustment factor, and adjustments to payment rates for certain pathology services and mental health services. The act increases payment rates for primary care services and anesthesia services. In addition, the act requires accreditation for

certain facilities and personnel involved in providing advanced diagnostic imaging services. CBO estimates those provisions will increase Medicare spending by \$1.6 billion over the 2008-2013 period and by \$2.0 billion over the 2008-2018 period.

Preventive and Mental Health Services. MIPPA requires the Secretary of Health and Human Services (HHS) to use the Medicare National Coverage Determination process to add coverage of preventive services relevant to the Medicare population that are recommended by the U.S. Preventive Services Task Force with a rating of “A” or “B.” (Medicare currently covers all preventive services for adults that are rated “A.”) CBO expects that coverage of services currently rated “B” will be added over the next three years and that coverage of additional services will be added in subsequent years based on new recommendations by the task force. CBO estimates that provision will cost \$1.4 billion over the 2008-2013 period and \$5.9 billion over the 2008-2018 period. The act will also gradually reduce coinsurance for mental health services from 50 percent to 20 percent. CBO estimates that provision will cost \$0.4 billion over the 2008-2013 period and \$2.8 billion over the 2008-2018 period. The estimated cost of the two provisions is \$1.9 billion over the 2008-2013 period and \$8.7 billion over the 2008-2018 period.

Low-Income Programs. H.R. 6331 modifies eligibility criteria for the Medicare Savings Program, which encompasses three programs through which Medicaid provides subsidies for premiums and cost sharing to certain low-income Medicare beneficiaries (the Qualified Medicare Beneficiary, Specified Low-Income Medicare Beneficiary, and Qualified Individual programs). The legislation extends the Qualified Individual program through 2009. It also expands eligibility for the Medicare Savings Program in 2010 by increasing the amount of assets that eligible individuals may possess to the amount specified for the full low-income subsidy program in Part D of Medicare (currently \$6,350 for an individual and \$9,520 for a couple; those amounts are adjusted annually for inflation). In addition, the legislation eliminates the Part D late-enrollment penalty for low-income beneficiaries and specifies that certain income and assets (for example, life insurance policies) will be disregarded in determining eligibility for the low-income subsidy program in Part D. (Those disregards will not apply to the Medicare Savings Program.) MIPPA will also provide additional funds to federal and state entities to increase outreach efforts to encourage eligible individuals to enroll in those programs. CBO estimates those provisions will increase direct spending by \$2.2 billion over the 2008-2013 period and by \$7.8 billion over the 2008-2018 period.

Medicare Advantage. New spending under the act will be offset largely by reductions in payments to Medicare Advantage (MA) plans. The act phases out payments to MA organizations for the costs of indirect medical expenses (IME) that currently are paid to both hospitals and plans. The act also requires 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 will be exempted and able to continue operating without networks (through an arrangement known as “deeming”). CBO estimates that those provisions will reduce federal spending by \$12.5 billion over the 2009-2013 period and \$47.5 billion over the 2009-2018 period. The act also extends and modifies the authority for MA organizations to offer plans for individuals with special needs and rescind all but \$1 of the stabilization fund for regional MA plans. Those provisions will reduce direct spending by \$1.1 billion over the 2009-2013 period and by \$1.3 billion over the 2009-2018 period, CBO estimates. Taken together, the Medicare Advantage provisions will reduce spending by an estimated \$13.6 billion over the 2008-2013 period and \$48.7 billion over the 2008-2018 period.

CBO estimates that the provisions relating to IME and to PFFS plans will reduce enrollment in Medicare Advantage relative to the enrollment projected in CBO’s baseline. Currently, 9.6 million beneficiaries are enrolled in Medicare Advantage plans, including 2.3 million beneficiaries enrolled in PFFS plans. CBO projected that, under prior law, total enrollment in MA would rise to 14.3 million in 2013, of which 5 million individuals would be enrolled in PFFS plans. Overall, CBO estimates that, relative to our baseline projections, H.R. 6331 will decrease enrollment in MA by about 2.3 million individuals in 2013. Those 2.3 million individuals will instead choose to enroll in traditional fee-for-service Medicare. In other words, under H.R. 6331, enrollment in MA plans will total roughly 12 million in 2013.

Section 164 of the act, which extends authority for specialized plans for individuals with special needs, will increase enrollment in MA HMOs and PPOs in 2013 by less than 100,000 people, CBO estimates.

Therapy Caps. The act extends through 2009 a provision that extends the exceptions process to the \$1,810 annual cap on Medicare payments for therapy services. CBO estimates that provision will increase Medicare spending by \$0.1 billion in 2008 and by \$1.2 billion over both the 2008-2013 and 2008-2018 periods.

Medicare Physician Assistance and Quality Initiative Fund and Medicare Improvement Fund. The Tax Relief and Health Care Act of 2006 (P.L. 109-432) established the Physician Assistance and Quality Initiative (PAQI) fund for the Secretary of HHS to use for initiatives related to physician payments and quality improvements in Medicare. The amounts available in that fund have been modified several times by subsequent legislation. Following enactment of the Supplemental Appropriations Act (P.L. 110-252) on June 30, 2008, the PAQI fund had budget authority of \$4.67 billion for 2013 and \$290 million for 2014. MIPPA eliminates that PAQI funding and creates a similar fund—the Medicare Improvement Fund—with funding available during fiscal years 2014 through 2017. The Medicare Improvement Fund would, under the statute, be available to the Secretary of HHS to make improvements in Part A and Part B benefits. CBO estimates that those changes in funding

will decrease outlays by \$3.1 billion in 2013 and will increase outlays by \$18.9 billion over the 2008-2018 period.

Other Medicare Provisions. MIPPA extends a number of provisions that expired on July 1, 2008, including increases in payment rates for outpatient hospital departments, ambulance services, and rural hospitals. Other MIPPA provisions include increases in payment rates for certain sole community hospitals and certain renal dialysis services, a reduction in payment rates for clinical laboratories, coverage of pulmonary and cardiac rehabilitation services, and inclusion of barbiturates and benzodiazepines as covered drugs under Part D of Medicare. In total, CBO estimates those provisions will increase Medicare spending by \$0.9 billion over the 2008-2013 period and by \$3.7 billion over the 2008-2018 period.

In addition to extending expiring provisions, section 154 of the act delays and modifies the program of competitive acquisition for durable medical equipment and other medical items that began on July 1 of this year. It also reduces fees paid for items included in the first round of competitive acquisition by eliminating the price increase scheduled for 2009 and reducing prices by a further 9.5 percent. CBO estimates that the durable medical equipment provisions will not have substantial budgetary effects over either the 2009-2013 or 2009-2018 periods.

When the Part D prescription drug benefit was established, the Secretary of HHS required all Part D plans to cover all drugs in six therapeutic classes. The act clarifies that the Secretary has the authority to impose such a requirement. That is, the Secretary may require Part D plans to cover all drugs in a therapeutic class if the Secretary determines both that restricted access to drugs in the class would have major or life-threatening consequences and that there is significant clinical need for individuals to have access to multiple drugs in the class due to the unique effects of particular drugs. Because that provision provides specific authority for actions the Secretary has exercised and asserted were authorized under prior law, CBO estimates that it will have no budgetary effect.

Interactions. Changes in Medicare spending affect the "benchmarks" that Medicare uses to determine how much the program pays for beneficiaries in the Medicare Advantage program. The benchmarks for 2008 and 2009 have already been set and will not be modified. Therefore, changes in fee-for-service spending will have no effect on payments to MA plans in 2008 or 2009. CBO estimates that the changes in Medicare spending discussed above will increase payments to MA plans by \$1.8 billion over the 2010-2013 period and \$3.7 billion over the 2010-2018 period.

Beneficiaries enrolled in Part B of Medicare pay premiums that offset about 25 percent of the cost of those benefits. Therefore, about one-quarter of the changes in Part B spending will be offset by changes in those premium receipts. The premium for 2008 has already been set and will not be changed, so the act will have no effect on Part B premium receipts in 2008. CBO estimates that the legislation will increase Part B premium receipts by \$4.1 billion over the 2009-2013 period and by \$6.0 billion over the 2009-2018 period.

Effect on General Revenue Funding of Medicare. By statute, the issuance of a Medicare funding warning is based on projections by the Medicare Trustees of when Medicare funding from general revenues (that is, spending not covered by dedicated sources, such as the Hospital Insurance payroll tax and Part B or Part D premiums) will exceed 45 percent. In their 2007 report, the trustees estimated that funding from general revenues will reach 45 percent in 2013.¹ That finding triggered a general revenue funding warning that required the President to submit a proposal to the Congress to respond to the warning. (The President's response was introduced as H.R. 5480, the "Medicare Funding Warning Response Act of 2008.")

Under prior law, CBO projected that Medicare funding from general revenues would exceed 45 percent in fiscal year 2013. CBO estimates that, under H.R. 6331, the 45 percent threshold will first be crossed in fiscal year 2014. CBO's projections do not determine whether or not there will be a funding warning.

Medicaid. The act extends the Transitional Medical Assistance program through March 30, 2009. It also extends the Disproportionate Share Hospital program for Hawaii and Tennessee through December 31, 2009, delays implementation of new payment limits on multiple-source drugs under Medicaid, and allow expansion of county-operated managed care plans for Medicaid beneficiaries in California. CBO estimates those provisions will increase federal direct spending by \$1.1 billion over the 2008-2013 period and by \$1.0 billion over the 2009-2013 period.

Other Programs. MIPPA extends the Temporary Assistance for Needy Families (TANF) supplemental grant program through fiscal year 2009. CBO estimates that this extension will cost \$0.3 billion over the 2008-2013 period. The act also increases the federal matching payment rate for foster care and adoption assistance services in the District of Columbia and provides \$600 million for certain diabetes grant programs. In total, CBO estimates those provisions will increase federal direct spending by \$1.0 billion over both the 2008-2013 and 2008-2018 periods.

1. In their March 2008 report, the trustees estimated that funding from general revenues will exceed 45 percent in 2014, which triggered another Medicare funding warning.

Revenues

Medicare Payment Levy. The act requires CMS to participate in the Federal Payment Levy Program, as administered by the Department of the Treasury. Participation in that program will allow the Treasury and CMS to identify Medicare providers who have overdue tax liability and effectively collect those taxes by withholding an equal amount from any subsequent reimbursements for Medicare-covered services. Since such withholding represents a payment of overdue taxes, the amount by which a reimbursement is reduced is considered a collection of revenue. JCT estimates that this provision will increase revenues by \$0.2 billion over the 2008-2013 period and by \$0.4 billion over the 2008-2018 period.

PREVIOUS ESTIMATE

On June 24, 2008, CBO transmitted a cost estimate for H.R. 6331, an amendment in the nature of a substitute as proposed by the House Committee on Ways and Means on June 23, 2008. Also on June 24, 2008, CBO transmitted a cost estimate for the same legislation to the House Committee on Energy and Commerce. On July 8, 2008, CBO provided additional information about the act, as passed by the House of Representatives, regarding the effect on enrollment in Medicare Advantage plans.

Those previous estimates cited a net reduction in deficits (or increases in surpluses) of \$0.3 billion over the 2008-2103 period and less than \$50 million over the 2008-2018 period. Subsequently, the Supplemental Appropriations Act was enacted. That legislation shifted the availability of \$290 million in PAQI funds from 2013 to 2014. Therefore, the estimated savings in the current estimate from the elimination of PAQI funds are lower in 2013 and higher in subsequent years (with no change in the estimated savings over the 2008-2018 period). That change accounts for the difference between the prior estimates and the current estimate of a reduction in deficits (or increase in surpluses) of \$0.1 billion over the 2008-2013 period and less than \$50 million over the 2008-2018 period.

ESTIMATE PREPARED BY:

Federal Spending: Mindy Cohen, Sarah Evans, Tim Gronniger, Lori Housman, Matthew Kapuscinski, Jonathan Morancy, Andrea Noda, Lara Robillard, Robert Stewart, and Shinobu Suzuki

Federal Revenues: Zachary Epstein

ESTIMATE APPROVED BY:

Keith J. Fontenot
Deputy Assistant Director for Health and Human Resources,
Budget Analysis Division

G. Thomas Woodward
Assistant Director for Tax Analysis