



December 20, 2009

Honorable Harry Reid  
Majority Leader  
United States Senate  
Washington, DC 20510

Dear Mr. Leader:

The Congressional Budget Office (CBO) has discovered an error in the cost estimate released on December 19, 2009, related to the longer-term effects on direct spending of the manager's amendment to the Patient Protection and Affordable Care Act (PPACA), Senate Amendment 2786 in the nature of a substitute to H.R. 3590 (as printed in the Congressional Record on November 19, 2009).

Correcting that error has no impact on the estimated effects of the legislation during the 2010–2019 period. However, the correction reduces the degree to which the legislation would lower federal deficits in the decade after 2019.

The legislation would establish an Independent Payment Advisory Board, which would be required, under certain circumstances, to recommend changes to the Medicare program to limit the rate of growth in that program's spending. Those recommendations would go into effect automatically unless blocked by subsequent legislative action. In its original estimate, CBO wrote that: "Such recommendations would be required if the Chief Actuary for the Medicare program projected that the program's spending per beneficiary would grow more rapidly than a measure of inflation (the average of the growth rates of the consumer price index for medical services and the overall index for all urban consumers)." That statement is correct for fiscal years 2015 through 2019. After 2019, however, the threshold for Medicare spending growth that would trigger recommendations for spending reductions would be higher—specifically, the rate of increase in gross domestic product (GDP) per capita plus 1 percentage point.

With this corrected reading, savings from changes to the Medicare program (along with other changes to direct spending that are not associated directly with expanded insurance coverage) would increase at a rate that is between 10 percent and 15 percent per year during the 2020–2029 period, compared with a growth rate of nearly 15 percent reported in the initial estimate. The long-run budgetary effects of the other broad categories of the legislation are unchanged from the initial estimate. All told, CBO expects that the legislation, if enacted, would reduce federal budget deficits over the decade after 2019

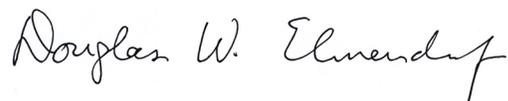
relative to those projected under current law—with a total effect during that decade that is in a broad range between one-quarter percent and one-half percent of GDP. In comparison, the extrapolations in the initial estimate implied a reduction in deficits in the 2020–2029 period that would be in a broad range around one-half percent of GDP. The imprecision of these calculations reflects the even greater degree of uncertainty that attends to them, compared with CBO’s 10-year budget estimates. The expected reduction in deficits would represent a small share of the total deficits that would be likely to arise in that decade under current policies.

Relative to the legislation as originally proposed, the expected reduction in deficits during the 2020–2029 period remains somewhat larger for the legislation incorporating the manager’s amendment. It also remains that case that most of that difference arises because the manager’s amendment would lower the threshold for Medicare spending growth that would trigger recommendations for spending reductions by the Independent Payment Advisory Board. Such recommendations would be required, in the legislation as originally proposed, if projected growth in Medicare spending per beneficiary exceeded the rate of increase in national health expenditures per capita—and in the legislation incorporating the manager’s amendment, if it exceeded the rate of increase in GDP plus 1 percentage point.

Based on this extrapolation, CBO expects that Medicare spending under the legislation would increase at an average annual rate of roughly 6 percent during the next two decades—well below the roughly 8 percent annual growth rate of the past two decades (excluding the effect of establishing the Medicare prescription drug benefit). Adjusting for inflation, Medicare spending per beneficiary under the legislation would increase at an average annual rate of roughly 2 percent during the next two decades—well below the roughly 4 percent annual growth rate of the past two decades. It is unclear whether such a reduction in the growth rate could be achieved, and if so, whether it would be accomplished through greater efficiencies in the delivery of health care or would reduce access to care or diminish the quality of care.

I apologize for any confusion created by this error. If you have any questions, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Douglas W. Elmendorf".

Douglas W. Elmendorf  
Director

Enclosures

cc: Honorable Mitch McConnell  
Republican Leader

Honorable Max Baucus  
Chairman  
Committee on Finance

Honorable Chuck Grassley  
Ranking Member

Honorable Tom Harkin  
Chairman  
Committee on Health, Education, Labor, and Pensions

Honorable Michael B. Enzi  
Ranking Member

Honorable Kent Conrad  
Chairman  
Committee on the Budget

Honorable Judd Gregg  
Ranking Member