CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 16, 2015

H.R. 1021
Protecting the Integrity of Medicare Act of 2015

As ordered reported by the House Committee on Ways and Means on February 26, 2015

SUMMARY

H.R. 1021 would make numerous changes to the Medicare and Medicaid programs aimed at improving the accuracy of their payments and reducing fraud and waste.

Over the 2015-2025 period, CBO estimates that H.R. 1021 would reduce direct spending by $19 million and increase revenues by $10 million, for a net reduction in deficits of $29 million. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues. H.R. 1021 would also have discretionary costs, subject to the availability of appropriated funds; CBO has not completed an estimate of those costs.

H.R. 1021 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effects of H.R. 1021 are shown in the following table. The costs of this legislation fall within budget functions 550 (health), 570 (Medicare), and 650 (Social Security).

BASIS OF ESTIMATE

H.R. 1021 would impose new requirements on the Medicare and Medicaid programs to enhance their ability to prevent fraud, waste, and other improper payments. Several provisions would affect direct spending, and one provision would affect revenues. For purposes of this estimate, CBO assumes that H.R. 1021 will be enacted in the spring of 2015.

	By Fiscal Year, in Millions of Dollars												
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2015-2020	2015-2025
CHANGES IN DIRECT SPENDING (Outlays[a])													
Remove Social Security Numbers from Medicare cards	12	99	65	103	17	12	12	0	0	0	0	308	320
Funding for program integrity activities	0	8	8	9	10	13	15	16	16	17	19	48	131
Prior authorization for manual manipulation of the spine	0	0	0	0	0	-6	-10	-11	-12	-13	-15	-6	-67
Expand prior authorization for certain ambulance services	0	-3	-10	-16	-14	-14	0	0	0	0	0	-57	-57
Programs to prevent prescription drug abuse under Part D	0	0	-6	-7	-7	-8	-9	-10	-10	-10	-11	-29	-79
Rescind funds from Medicare Improvement Fund	0	0	0	0	0	-178	-60	0	0	0	0	-178	-238
Interaction: Independent Payment Advisory Board	0	0	0	0	0	0	0	0	-1	-1	-28	0	-29
Total changes in direct spending	12	103	57	88	6	-181	-51	-5	-6	-7	-34	85	-19
CHANGES IN REVENUES													
Modify surety bond requirement for home health agencies	0	1	1	1	1	1	1	1	1	1	1	5	10
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES													
Impact on the Deficit	12	102	56	87	5	-182	-52	-6	-7	-8	-35	80	-29

a. For most provisions, budget authority is equal to outlays; components may not add up to totals because of rounding.

H.R. 1021 also includes several provisions that CBO estimates would not have a significant effect on direct spending or revenues, including measures that would lengthen the contracting period for the entities that process Medicare claims and repeal a duplicative statutory provision related to Medicare's status as secondary payer.

CBO has not estimated the potential discretionary cost of administrative activities required both to implement changes in program rules and to produce several studies and reports that would be required by the legislation.

Direct Spending

Remove Social Security Numbers from Medicare cards. Currently, Social Security Numbers (SSNs) are used as the basis for Medicare Health Insurance Claim Numbers (HICNs), which appear on Medicare identification cards. Beneficiaries use the HICNs as proof of eligibility for services; physicians, hospitals, and other providers use the HICN when filing claims.

The bill would require that the Secretary of Health and Human Services (HHS), in collaboration with the Commissioner of Social Security, develop a plan to remove beneficiaries' SSNs from Medicare identification cards and implement new HICNs within four years of the enactment of H.R. 1021. The bill would direct the Secretary to do this in a cost-effective manner, while minimizing disruption to beneficiaries and providers.

H.R. 1021 would appropriate $320 million over the 2015-2018 period for HHS, the Social Security Administration, and the Railroad Retirement Board to implement that provision. Based on information provided by HHS, CBO estimates that those funds would be spent by the end of fiscal year 2021.

Funding for program integrity activities. The bill would authorize the Secretary to pay for certain activities that promote the integrity of Medicare payments, including:

- Creation of programs operated by Medicare administrative contractors—the entities that review and pay fee-for-service claims—to educate providers about avoiding common payment errors and potential payment audits, among other topics.

- Implementation of a medical review and prior authorization process for manual manipulation of spinal subluxation (which is the only type of chiropractic care covered by Medicare); and

- Expansion of an existing prior authorization process for certain scheduled ambulance services.

The bill would cap the amount of funding available for those activities at 15 percent of the amounts recovered by recovery audit contractors. CBO expects that the cap would not be binding and estimates that federal spending for those activities would total $131 million over the 2015-2025 period.

Those costs would be offset, in part, by reduced spending for Medicare benefits that would result from the prior authorization programs. CBO estimates that:

- Implementation of the prior authorization requirement for manual manipulation of the spine to correct subluxation would reduce Medicare spending for covered benefits by $67 million over the 2015-2025 period, and

- Expansion—from three states to nine states—of a prior authorization demonstration project involving repetitive, scheduled ambulance transportation services furnished by independent ambulance operators would reduce Medicare spending by $57 million over the 2015-2025 period.

CBO estimates that the net effect of the new spending authority and the operation of those prior authorization processes would be to increase outlays by $7 million over the 2015-2025 period.

Programs to prevent prescription drug abuse under Part D. The bill would permit private drug plans that administer the Medicare Part D prescription drug benefit to establish a program that limits the number of physicians and pharmacies allowed to prescribe and dispense certain drugs to enrollees identified as being at high risk for prescription drug abuse. Under H.R. 1021, prescription drug plans that implement such a program would use clinical guidelines established by the Secretary of HHS to target certain beneficiaries who use Schedule II controlled substances, or drugs within the same class or category as those drugs.[1] For example, restrictions might be placed on beneficiaries suspected of abusing or reselling prescribed medicines, but not placed on beneficiaries with cancer or other conditions for which Schedule II drugs are considered appropriate. Based on information from HHS and other stakeholders, CBO estimates that enacting that provision would reduce spending by $79 million over the 2015-2025 period.

Rescission of amounts credited to the Medicare Improvement Fund. Under current law, the Secretary of HHS is authorized to spend $195 million in 2020 or subsequent years to increase payments for Medicare services furnished on a fee-for-service basis. The bill would rescind that authority. After accounting for the effect of changes in fee-for-service spending on both payments to Medicare Advantage plans and collections of Part B premiums paid by beneficiaries, CBO estimates that enacting that rescission would reduce Medicare spending by $238 million over the 2015-2025 period.

Interaction with Independent Payment Advisory Board (IPAB) mechanism. Under current law, the IPAB has the obligation to reduce Medicare spending relative to what otherwise would occur if the rate of growth in spending per beneficiary is projected to exceed a target rate that is based on inflation (for 2015 to 2019) or growth in the economy

1. The Drug Enforcement Agency and Food and Drug Administration classify—or schedule—certain drugs, both legal and illegal, based on their acceptable medical use and potential for abuse, among other criteria. Schedule II drugs, which have both a high potential for abuse and legitimate medical uses, include amphetamines, opioids (including morphine), and cocaine (when used as a topical anesthetic).

(for 2020 and subsequent years). In general, the required reduction is the difference, in percentage points, between the rate of growth in spending and the target rate. If the IPAB does not act, the Secretary of HHS is required to implement changes to the Medicare program that would achieve the same savings.

Enacting H.R. 1021 would reduce the level of Medicare spending compared to current law, but it would increase the rate of growth in Medicare spending after 2020. That increase in the rate of growth would slightly increase the probability that the IPAB mechanism would be invoked. As a result, CBO estimates that the expected savings stemming from operation of the IPAB mechanism would be increased by $29 million through 2025.

Revenues

Under current law, home health agencies must secure a surety bond as a condition of participation in Medicare. Section 15 of H.R. 1021 would modify the surety bond requirements by allowing the Secretary of HHS to raise the amount of the bond for certain home health agencies. CBO estimates that under the legislation the value of bonds would increase and the amount forfeited by home health agencies would be greater. CBO considers forfeiture of a bond to be an increase in revenues. Thus, enacting this provision would increase revenues by about $10 million over the 2015-2025 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 1021, as ordered reported by the House Committee on Ways and Means on February 26, 2015

	By Fiscal Year, in Millions of Dollars												
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2015-2020	2015-2025
	NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	12	102	56	87	5	-182	-52	-6	-7	-8	-35	80	-29
Memorandum:													
Changes in Outlays	12	103	57	88	6	-181	-51	-5	-6	-7	-34	85	-19
Changes in Revenues	0	1	1	1	1	1	1	1	1	1	1	5	10

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1021 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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