



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 11, 2015

H.R. 1190 **Protecting Seniors' Access to Medicare Act of 2015**

*As ordered reported by the House Committee on Ways and Means
on June 2, 2015*

SUMMARY

H.R. 1190 would repeal the provisions of the Affordable Care Act (ACA) that established the Independent Payment Advisory Board (IPAB) and that created a process by which the Board (or the Secretary of the Department of Health and Human Services) would be required under certain circumstances to modify the Medicare program to achieve specified savings.

CBO estimates that enacting H.R. 1190 would not have any budgetary impact between 2015 and 2021, but would increase direct spending by \$7.1 billion over the 2022-2025 period. That estimate is extremely uncertain because it is not clear whether the mechanism for spending reductions under the IPAB authority will be triggered under current law for most of the next ten years; under CBO's current baseline projections such authority is projected to be triggered in 2025. However, given the uncertainty that surrounds those projections, it is possible that such authority would be triggered in more than one of those years; taking into account that possibility, CBO estimates that repealing the IPAB provision of the ACA would probably result in higher spending for the Medicare program in the years 2022 through 2025 than would occur under current law. CBO's estimate represents the expected value of a broad range of possible effects of repealing the provision over that period.

Pay-as-you-go procedures apply because enacting the legislation would affect direct spending. Enacting the bill would not affect revenues.

H.R. 1190 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 impact of H.R. 1190 is shown in the following table. The costs of this legislation fall within budget function 570 (Medicare).

	By Fiscal Year, in Millions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	0	0	0	0	0	0	625	1,475	1,900	3,100	0	7,100
Estimated Outlays	0	0	0	0	0	0	625	1,475	1,900	3,100	0	7,100

BASIS OF ESTIMATE

H.R. 1190 would repeal the provisions of the ACA that created IPAB. CBO estimates that enacting the bill would lead to a net increase in direct spending of \$7.1 billion over the 2016-2025 period.

Under current law, IPAB has the obligation to reduce Medicare spending—beginning in 2015—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 on growth in the economy (for 2020 and subsequent years). Each year, the law requires the Chief Actuary of the Centers for Medicare and Medicaid Services (CMS) to project two numbers, each of which is a five-year moving average for the period ending two years in the future:

- The rate of change in net Medicare spending per beneficiary (that is, gross Medicare spending less enrollees’ payments for premiums), and
- The rate of change in an economic measure—which is the average of the CPI-U and CPI-M¹ for five-year periods ending in 2015 through 2019, and GDP per capita plus 1 percentage point for five-year periods ending in 2020 and subsequent years.

The Chief Actuary of CMS will compare those two values, and if the spending measure is larger than the economic measure, the difference will be used to determine the IPAB's savings target for the last year of the five-year period.

1. The CPI-U is the consumer price index for all urban consumers and the CPI-M is the medical care category of the CPI-U. The medical care category is one of eight major expenditure groups that make up the CPI-U (see <http://www.bls.gov/cpi/cpifact4.htm>).

CBO’s current estimates of Medicare spending and its current economic projections result in an IPAB spending measure that is at or below the economic measure in each target year through 2024 (that is, in the last year of each five-year period), but not in 2025.

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Spending Measure	0.0%	0.3%	1.0%	1.9%	2.6%	3.4%	4.0%	4.3%	4.3%	4.5%
Economic Measure	<u>2.3%</u>	<u>2.3%</u>	<u>2.5%</u>	<u>2.7%</u>	<u>4.4%</u>	<u>4.4%</u>	<u>4.3%</u>	<u>4.3%</u>	<u>4.4%</u>	<u>4.4%</u>
Difference	-2.4%	-2.0%	-1.5%	-0.8%	-1.9%	-1.0%	-0.3%	0.0%	0.0%	0.2%

The point estimates in CBO’s baseline projections, therefore, result in a projected savings target of zero in every year through 2024. However, the spending measure exceeds the target measure in 2025 resulting in a savings target of 0.2 percent in 2025.

The IPAB mechanism, however, is essentially a one-sided bet: The resulting target can be only zero or savings; IPAB cannot be instructed to increase spending. So, variations in those measures might lead to additional savings but could not lead to added costs.² In fact, the difference between the spending measure and the economic measure in each year that the Chief Actuary makes an IPAB determination will probably not be equal to the difference that CBO currently projects. If the Chief Actuary ends up projecting some combination of a higher spending measure or a lower economic measure than CBO currently projects, the savings target for the IPAB mechanism could exceed zero.

Because of the one-sided nature of the budgetary impact of variations in the spending and economic measures that determine IPAB’s savings target, CBO must consider the probabilities associated with such variations when assessing the effects of possible changes in law. To produce estimates for proposed legislative changes to the IPAB mechanism that take into account the probabilities of variations in the relevant measures, CBO applies that probability distribution to its point estimates of the five-year moving average of net Medicare spending per beneficiary to calculate an expected value for IPAB’s savings target under both current law and under the proposal. CBO applies a *de minimis* rule that the target will be zero if the expected value of the savings target is less than 0.05 percent.³

The use of probability-based estimates for changes to the IPAB mechanism does not affect the presentation of the effects of that mechanism in CBO’s baseline. The baseline reflects the agency’s current best judgment of the likely level of spending under current law; if the IPAB mechanism is triggered, that outcome probably will result from spending that exceeds CBO’s current projections.

2. For a discussion of CBO’s longstanding approach to estimating one-sided bets, see <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/15xx/doc1589/onesided.pdf>.

3. A further discussion of this methodology can be found in H.R. 452, the Medicare Decisions Accountability Act of 2011, http://www.cbo.gov/sites/default/files/HR_452_W%26M.pdf

However, employing a probability-based estimate, CBO estimates that repeal of the IPAB mechanism would have a budgetary cost. After application of the *de minimis* rule (for estimated effects that round to 0.0 percent), the expected value of IPAB’s savings target would be zero for 2015 through 2021. For 2022 through 2025, the expected value of the savings target would be between 0.1 percent and 0.3 percent of projected net Medicare spending. For example, if the expected value of the 2022 savings target is 0.1 percent, that percentage would be applied to net calendar year benefit outlays of \$816 billion. On a fiscal year basis, that would result in an expected value of \$625 million in savings in 2022 under current law. Therefore the expected value of repealing the IPAB would be a cost of \$625 million in that year. In addition, CBO anticipates that, if the IPAB mechanism was triggered, some of the savings in the target year would compound and produce savings in subsequent years. As a result, CBO estimates that repealing the IPAB mechanism would increase expected Medicare spending each year from 2022 through 2025, with the expected value of the net increase in Medicare spending for benefits totaling \$7.1 billion over that 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 that are subject to those pay-as-you-go procedures are shown in the following table. Enacting H.R. 1190 would not affect revenues.

CBO Estimate of Pay-As-You-Go Effects for H.R. 1190, as ordered reported by the House Committee on Ways and Means on June 2, 2015

	By Fiscal Year, in Millions of Dollars										2016-	2016-
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2020	2025
NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	0	0	0	0	0	0	625	1,475	1,900	3,100	0	7,100

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1190 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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