CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 15, 2015

H.R. 2581
Preservation of Access for Seniors in Medicare Advantage Act of 2015

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

SUMMARY

H.R. 2581 would establish a demonstration program in the Medicare Advantage (MA) program, modify the open enrollment period for that program, and change payment rates for prescription drugs that are administered through items of durable medical equipment (DME).

CBO estimates that enacting H.R. 2581 would decrease direct spending relative to current law by $225 million over the 2016-2025 period. Pay-as-you-go procedures apply because the bill would affect direct spending. Enacting the bill would not affect revenues.

H.R. 2581 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 effect of H.R. 2581 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 (Outlays[a])												
Value-Based Insurance Design Demonstration Program	0	0	20	20	20	20	20	30	40	40	60	210
Medicare Advantage Open Enrollment Period	0	5	10	10	10	10	15	15	15	15	35	105
Durable Medical Equipment Drugs	0	-55	-75	-80	-55	-50	-55	-55	-55	-60	-265	-540
NET DECREASE IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING												
Impact on the Deficit	0	-50	-45	-50	-25	-20	-20	-10	0	-5	-170	-225

a. Budget authority is equal to outlays.

BASIS OF ESTIMATE

H.R. 2581 would require the Secretary of Health and Human Services to conduct a demonstration program, modify the open enrollment period for the Medicare Advantage program, and change how payment rates for certain prescription drugs are set. In aggregate, CBO estimates those changes would reduce direct spending for Medicare by $225 million over the 2016-2025 period.

Value-Based Insurance Design Demonstration Program

The legislation would require the Secretary to conduct a demonstration program to test the effectiveness of permitting private health insurance plans participating in the Medicare Advantage program to vary cost-sharing for Medicare beneficiaries with certain conditions in order to encourage the use of certain services and providers. As with models tested through the Center for Medicare and Medicaid Innovation (CMMI), the Secretary would be permitted to expand the program if, after evaluation of the results of the demonstration program, the Chief Actuary of the Centers for Medicare and Medicaid Services certifies that expansion would not increase Medicare spending and the Secretary determines that the expansion would not reduce quality of care.

Based on the priority areas announced by the CMMI program and information provided by stakeholders, CBO expects that CMMI will conduct a demonstration program under current law that is substantially similar to the program proposed under the legislation. The CMMI program has considerable flexibility in designing the models it tests, and to modify

those models during the testing process. That flexibility increases the likelihood that a model tested by CMMI will be successful in either reducing spending without harming quality of care or improving quality of care without increasing spending.

In contrast, the legislation would codify several features of the demonstration program that the Secretary would be required to conduct. In CBO's judgment, that codification would have the effect of limiting the Secretary's flexibility in designing and modifying the demonstration, and could result in a model that is less successful in achieving the cost-reducing objective of the CMMI program. CBO expects that limiting that flexibility would be unlikely to result in greater cost savings than a similar model designed and refined under the existing CMMI program. Based on that one-sided effect on potential savings, CBO concludes that the middle of the range of expected outcomes would be an increase in Medicare spending. CBO estimates that replacing the CMMI model with the demonstration program would increase Medicare spending by about $20 million a year during the testing period, rising to about $40 million a year during years when a successful model would be expanded. In particular, CBO estimates that the projected savings for the cohort of projects beginning in 2017 would be reduced by around 5 percent under the legislation. In total, CBO estimates the demonstration program required by H.R. 2581 would increase direct spending for Medicare by $210 million over the 2016-2025 period.

Medicare Advantage Open Enrollment Period

H.R. 2581 would establish an additional open enrollment period annually for beneficiaries already enrolled in a Medicare Advantage plan, beginning in 2016. Those beneficiaries would be permitted to enroll in a different plan during January through March of each year. CBO expects that the opportunity to switch plans would result in slightly more beneficiaries selecting plans that receive quality-bonus payments, increasing Medicare's costs for those beneficiaries by around 3 percent. That assessment reflects CBO's observation that beneficiaries tend to choose plans with higher quality ratings when given an opportunity to do so. CBO estimates that the additional enrollment period would increase direct spending for Medicare by $105 million over the 2016-2025 period.

Durable Medical Equipment Drugs

Under current law, Medicare's payment rate for prescription drugs delivered through an item of durable medical equipment (such as an infusion pump) is 95 percent of the average wholesale price (AWP) that was in effect as of October 1, 2003. As of January 1, 2017, the bill would base payment for those drugs on the Average Sales Price (ASP), which reflects actual transaction prices paid to manufacturers. CBO estimates that Medicare spent more than $700 million for these drugs in FY 2014 and, absent the change in law, CBO projects that Medicare will spend more than $1 billion annually on these drugs by 2025. For some drugs, the new payment rate would be higher than under current law, but the new payment

rate would be lower for the majority of drugs. CBO estimates that this provision would reduce direct spending for Medicare by about $540 million over the 2016-2025 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 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. 2581, as ordered reported by the House Committee on Ways and Means on June 2, 2015

	By Fiscal Year, in Millions of Dollars												
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
NET DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	0	-50	-45	-50	-25	-20	-20	-10	0	-5	-170	-225

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2581 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local or tribal governments.

ESTIMATE PREPARED BY:

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