CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

November 19, 2009

Honorable Paul Ryan
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Congressman:

This letter responds to questions you have asked about Medicare's payments to physicians and the budgetary effects of H.R. 3961, the Medicare Physicians Payment Reform Act of 2009, as introduced on October 29, 2009. In particular, you inquired about the budgetary impact of a new regulation specifying how payments to physicians should be determined under current law and about the total budgetary impact of enacting both H.R. 3961 and H.R. 3962, the Affordable Health Care for America Act.

The New Rule Governing Medicare's Payments to Physicians

On October 30, 2009, the Centers for Medicare and Medicaid Services promulgated a final rule, "*Payment Policies Under the Physician Fee Schedule and Other Revisions to Part B for CY 2010.*" [1] That rule removes physician-administered (P-A) drugs from the calculation of the sustainable growth rate (SGR) formula, which determines the updates to payment rates for physicians' services. Removal of P-A drugs from the SGR will increase Medicare's spending for fee-for-service physicians' services and the Medicare Advantage (MA) program, as well as the Department of Defense's outlays for the TRICARE program. Because beneficiaries enrolled in Part B of Medicare pay premiums that offset about 25 percent of the costs of their benefits, premium income will rise to offset part of the added costs. On net, the Congressional Budget Office (CBO) estimates that this new rule will increase federal spending by $78 billion over the 2010–2019 period.

The Budgetary Impact of Enacting Both H.R. 3961 and H.R. 3962

Under current law, including the new rule, Medicare's payment rates for physicians' services will be reduced by about 21 percent in January 2010, and CBO estimates those payment rates will be reduced by about 2 percent annually for several subsequent years. H.R. 3961 would increase those payment rates by 1.2 percent in 2010 and restructure the

[1] See http://www.federalregister.gov/OFRUpload/OFRData/2009-26502_PI.pdf. The final rule removed spending for physician-administered drugs from the SGR calculations, specified the Medicare economic index for 2010, and made numerous other changes to the physician fee schedule.

SGR beginning in 2011. Those changes would result in significantly higher payment rates for physicians than those that would result under current law. CBO estimates that enacting H.R. 3961, by itself, would cost $210 billion over the 2010–2019 period.[2]

H.R. 3962, the Affordable Health Care for America Act, would establish a mandate for most legal residents of the United States to obtain health insurance, set up insurance "exchanges" through which certain individuals could receive federal subsidies toward the purchase of such insurance, and make numerous other changes in the health insurance system, in federal health care programs, and in the federal tax code. CBO and the staff of the Joint Committee on Taxation estimate that enacting H.R. 3962, by itself, would reduce federal budget deficits by $109 billion over the 2010–2019 period through its effects on direct spending and revenues.[3]

CBO estimates that enacting both H.R. 3961 and H.R. 3962 would add $89 billion to budget deficits over the 2010–2019 period. That amount is about $12 billion less than the sum of the effects of enacting the bills separately. The $12 billion difference results from two types of interactions. The higher payment rates for physicians' services under H.R. 3961 would increase the net cost of provisions in H.R. 3962 by about $3 billion. However, that difference would be more than offset by the effect of a change under H.R. 3962 in how payment rates for Medicare Advantage plans are set. That change would reduce the effect of the changes made by H.R. 3961 to Medicare's payments for physicians' services in the fee-for-service sector on payment rates for Medicare Advantage plans. As a result, the estimated increase in payments to Medicare Advantage plans would be $15 billion smaller if both bills were enacted than under H.R. 3961 alone.

You also asked about the long-term effects on the federal budget of enacting both bills. A detailed year-by-year projection, like those that CBO prepares for the 10-year budget window, would not be meaningful because the uncertainties involved are simply too great. Among other factors, a wide range of changes could occur—in people's health, in the sources and extent of their insurance coverage, and in the delivery of medical care (such as advances in medical research, technological developments, and changes in physicians' practice patterns)—that are likely to be significant but are very difficult to predict, both under current law and under any proposal.

CBO has therefore developed a rough outlook for the decade following the 10-year budget window. The agency estimates that the two bills together would cost about $32 billion more in 2019 than H.R. 3962 alone and that the combination of the two bills would increase the budget deficit in 2019 by $23 billion relative to current law. Those

[2]See CBO's cost estimate for H.R. 3961 (November 4, 2009) at http://www.cbo.gov/ftpdocs/107xx/doc10704/hr3961.pdf .

[3]See CBO's cost estimate for H.R. 3962 (November 6, 2009) at http://www.cbo.gov/ftpdocs/107xx/doc10710/hr3962Dingell_mgr_amendment_update.pdf .

increments would grow during the following decade. As stated in its October 29, 2009, letter to Congressman Charles B. Rangel, "CBO expects that [H.R. 3962] would slightly reduce federal budget deficits in that decade relative to those projected under current law—with a total effect during that decade that is in a broad range between zero and one-quarter percent of GDP [gross domestic product]." If both H.R. 3961 and H.R. 3962 were enacted, CBO expects that federal budget deficits during the decade following the 10-year budget window would *increase* relative to those projected under current law—with a total effect during that decade that is in a broad range between zero and one-quarter percent of GDP.

If you wish further details, CBO would be happy to provide them. The staff contacts for this estimate are Lori Housman and Tom Bradley.

Sincerely,

Douglas W. Elmendorf

Douglas W. Elmendorf
Director

cc: Honorable John M. Spratt, Jr.
Chairman, Committee on the Budget

Honorable Charles B. Rangel
Chairman, Committee on Ways and Means

Honorable Dave Camp
Ranking Member

Honorable George Miller
Chairman, Committee on Education and Labor

Honorable John Kline
Senior Republican

Honorable Henry A. Waxman
Chairman, Committee on Energy and Commerce

Honorable Joe Barton
Ranking Member