FOCUS on Health Reform

THE HENRY J. KAISER FAMILY FOUNDATION

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MEDICARE SAVINGS IN PERSPECTIVE:
A COMPARISON OF 2009 HEALTH REFORM LEGISLATION AND OTHER LAWS IN THE LAST 15 YEARS

Although Medicare is not the main focus of current health reform legislation, the bills passed by the House (H.R. 3962, Affordable Health Care for America Act of 2009) and currently being debated in the Senate (H.R. 3590, Patient Protection and Affordable Care Act) include a number of provisions that would affect future Medicare program expenditures. This policy brief considers the magnitude of the Medicare savings proposed in these bills in the context of other laws enacted during the last 15 years, which have varied in their policy objectives and their expected effect on Medicare spending *(Appendix).*

The House and Senate health reform bills contain numerous provisions that are projected by the Congressional Budget Office (CBO) to affect Medicare savings and spending in the future. Many of these provisions are similar, but there are a number of important distinctions between the bills that would affect benefits, provider and plan payments, delivery system reforms, and ultimately, the growth in Medicare spending over time. For example, the House bill eliminates the coverage gap in the Part D prescription drug benefit by 2019, while the Senate bill reduces the gap for only one year. The Senate bill creates an Independent Medicare Advisory Board to recommend changes to limit the growth in Medicare spending, while the House bill does not. In addition, the Senate bill prevents a scheduled 21.2 percent reduction in physician payments in 2010, while the House has passed separate legislation (H.R. 3961) to prevent reductions in physician fees over a 10-year period.[1]

Altogether, the Medicare provisions of the House bill, H.R. 3962, would result in a net reduction of $475 billion in Medicare spending between 2010 and 2019, taking into account $573 billion in Medicare savings and $98 billion in Medicare spending over the 10-year period.[2] The Senate bill, H.R. 3590, would result in a net reduction of $384 billion in Medicare spending over this period, roughly $100 billion less than the House bill, taking into account $466 billion in Medicare savings and $82 billion in Medicare spending between 2010 and 2019.[3] Looking back at other major legislation affecting Medicare spending over the past 15 years, the Balanced Budget Act of 1997 (BBA) was estimated by CBO to produce a net reduction in Medicare spending of $394 billion between 1998 and 2007. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA), which added an outpatient prescription drug benefit to Medicare, was projected to increase Medicare expenditures, on net, by $390 billion over 10 years.

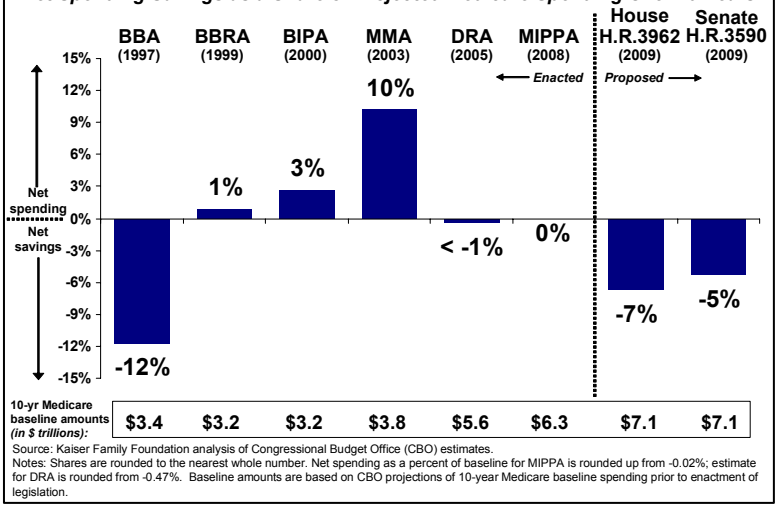
While these absolute dollar amounts convey a sense of magnitude, they are not directly comparable from one law to another, in part because they are not adjusted to account for actual increases in spending over time.[4] In addition, the assumptions used to estimate the effects of program modifications can change over time as CBO takes new information into account.

To compare the changes in Medicare expenditures from 2009 House and Senate health reform legislation with those from prior laws, we calculated net changes in 10-year projected Medicare expenditures estimated at the time each law was enacted as a share of the contemporaneous projected Medicare baseline spending **(Exhibit 1)**.

Exhibit 1

Net Effect of Major Legislation on Medicare Spending

Net Spending/Savings as a Share of Projected Medicare Spending Over 10 Years



Source: Kaiser Family Foundation analysis of Congressional Budget Office (CBO) estimates.

Notes: Shares are rounded to the nearest whole number. Net spending as a percent of baseline for MIPPA is rounded up from -0.02%; estimate for DRA is rounded from -0.47%. Baseline amounts are based on CBO projections of 10-year Medicare baseline spending prior to enactment of legislation.

The $475 billion in 10-year net Medicare spending reductions in the House bill amounts to 7 percent of projected Medicare baseline spending over 10 years, slightly higher than the $384 billion in net Medicare spending reductions in the Senate bill, or 5 percent of projected Medicare baseline spending. By contrast, the BBA of 1997 was projected to reduce net Medicare spending by 12 percent of Medicare baseline spending. In other words, the 10-year net reduction in Medicare expenditures enacted in the BBA of 1997, expressed as a share of baseline spending, is nearly two times greater than the Medicare spending reductions proposed under the House bill and more than twice as great as the proposed savings in the Senate bill. In contrast, the MMA of 2003 was projected to result in a net increase in Medicare expenditures of 10 percent of projected Medicare baseline spending over 10 years.

Following enactment of the BBA of 1997, Congress passed legislation to increase payments to Medicare Advantage plans (then called Medicare+Choice) and certain providers, as part of the Balanced Budget Refinement Act of 1999 (BBRA of 1999) and again in the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA of 2000). Even if these subsequent increases in Medicare spending are taken into account (i.e., incorporated in the spending projections for the BBA of 1997), the net Medicare spending reductions proposed under the House and Senate health reform bills are smaller than those enacted in the BBA of 1997.

IMPLICATIONS

Both the House and Senate health reform bills would reduce the projected growth in Medicare spending over a 10-year period, estimated to result in a 7 percent net reduction of projected baseline Medicare spending under the House bill and 5 percent under the Senate bill. Put in context of laws enacted over the past 15 years, however, the net Medicare savings in the health reform bills are not of the same magnitude as those enacted as part of the BBA of 1997, which was projected to reduce future Medicare spending by 12 percent.

Changes in Medicare expenditures – both savings and spending – directly affect beneficiaries, providers, and the long-term sustainability of the program. For example, the Medicare savings provisions in both the House and Senate health reform bills are projected to extend the life of the Medicare Hospital Insurance Trust Fund by an additional five years, according to the Centers for Medicare & Medicaid Services Office of the Actuary. At the same time, the Medicare spending provisions in the health reform bills would help to protect beneficiaries from high and rising out-of-pocket costs – for example, by closing the Part D coverage gap. Balancing the need to keep Medicare sustainable for the future while ensuring reasonable payments to providers and without placing undue burden on beneficiaries remains an ongoing policy challenge.

[1] Congressional Budget Office, H.R. 3961, Medicare Payment Physician Reform Act of 2009, November 4, 2009, Cost Estimate for the Bill as Introduced on October 29, 2009, available at http://www.cbo.gov/doc.cfm?index=10704. H.R. 3961 passed the House on November 19, 2009.
[2] These amounts are based on revised cost estimates for individual Medicare-related provisions from the Congressional Budget Office for H.R. 3962 as passed by the House of Representatives, available at http://www.cbo.gov/doc.cfm?index=10741. Spending increases and reductions may not sum to the net effect due to rounding.
[3] These amounts are based on cost estimates for individual Medicare-related provisions from the Congressional Budget Office letter to Senate Majority Leader Harry Reid, Cost Estimate for the Amendment in the Nature of a Substitute to H.R. 3590, as Proposed in the Senate on November 18, 2009, available at http://www.cbo.gov/doc.cfm?index=10731.
[4] Between 1997 and 2009, for example, annual spending increased by 141 percent.

APPENDIX

Major Legislation Affecting Medicare Spending in the Last 15 Years[1]

BBA – Balanced Budget Act of 1997 (P.L. 105-33) [10-year window: 1998-2007]
- Expenditures from Congressional Budget Office (CBO), E*stimated budgetary effects of the Balanced Budget Act of 1997,* 1997.
- Baseline from CBO, *An Analysis of the President's Budgetary Proposals for Fiscal Year 1998; Table A-4: CBO Baseline Projections of Mandatory Spending, Including Deposit Insurance* (March 1997).

BBRA – Balanced Budget Refinement Act of 1999 (P.L. 106-113) [10-year window: 2000-2009]
- Expenditures from CBO, *Pay-as-you-go estimate for H.R. 3194, An act making consolidated appropriations for the fiscal year ending September 30, 2000, and for other purposes*, December 8, 1999 (as cleared by the Congress on November 19, 1999 and signed by the President on November 29, 1999).
- Baseline from CBO, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2000; Table 3-2: Outlays for Medicare Benefits, by Sector* (April 1999).

BIPA – Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000; enacted as part of the Consolidated Appropriations Act (P.L. 106-554) [10-year window: 2001-2010]
- Expenditures from CBO, *Pay-as-you-go-estimate for H.R. 5661, Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000*, September 20, 2001 (as cleared by the Congress on December 15, 2000 and signed by the President on December 21, 2000).
- Baseline from CBO, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2001; Table A-9: CBO's Projections of Mandatory Spending* (April 2000).

MMA – Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (P.L. 108-173)
[10-year window: 2004-2013]
- Expenditures from CBO, *Estimate of Effect on Direct Spending and Revenues of Conference Agreement on H.R. 1: Detail*, November 20, 2003
- Baseline from CBO, *The Budget and Economic Outlook: Fiscal Years 2004-2013; Table 4-5: CBO's Baseline Projections of Mandatory Spending,* January 2003; Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2004; Table 3: Changes in CBO's Baseline Projections of the Deficit or Surplus Since January 2003* (March 2003).

DRA – Deficit Reduction Act of 2005 (P.L. 109-171) [10-year window: 2006-2015]
- Expenditures from CBO, *Cost estimate for S. 1932, Deficit Reduction Act of 2005*, January 27, 2006 (Conference agreement, as amended and passed by the Senate on December 21, 2005).
- Baseline from CBO, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2006; Table A-1: Comparison of CBO's March 2005 and January 2005 Baseline Projections of Medicare Mandatory Spending* (March 2005).

MIPPA – Medicare Improvements for Patients and Providers Act of 2008 (P.L. 110-275)
[11-year window: 2008-2018]
- Expenditures from CBO, *Cost estimate for H.R. 6331, Medicare Improvements for Patients and Providers Act of 2008*, July 23, 2008 (enacted as Public Law 110-275 on July 15, 2008)
- Baseline from CBO, *March 2008 Baseline: MEDICARE* (March 2008).

PROPOSED:

House H.R. 3962 –Affordable Health Care for America Act of 2009 [10-year window: 2010-2019]
- Expenditures from CBO, *Revised Cost Estimate for the Bill as Passed by the House of Representatives, November 20, 2009*.
- Baseline from CBO, *March 2009 Baseline: MEDICARE* (March 2009).

Senate H.R. 3590 – Patient Protection and Affordable Care Act [10-year window: 2010-2019]
- Expenditures from CBO, *Cost Estimate for the Amendment in the Nature of a Substitute to H.R. 3590, as Proposed in the Senate on November 18, 2009.*
- Baseline from CBO, *March 2009 Baseline: MEDICARE* (March 2009).

[1] In addition to the legislation summarized here, Congress has passed two other laws since 1997 that affected Medicare spending, but the effects were relatively minimal and therefore not included in this analysis. The Tax Relief and Health Care Act of 2006 was projected to increase Medicare spending by $4.9 billion over a 10-year period (2007-2016) and the Medicare, Medicaid, and SCHIP Extension Act of 2007 was projected to reduce Medicare spending by $1.8 billion over a 10-year period (2008-2017).

Key Medicare Expenditure Provisions in Major Legislation in the Last 15 Years

Based on CBO 10-Year Cost Estimates

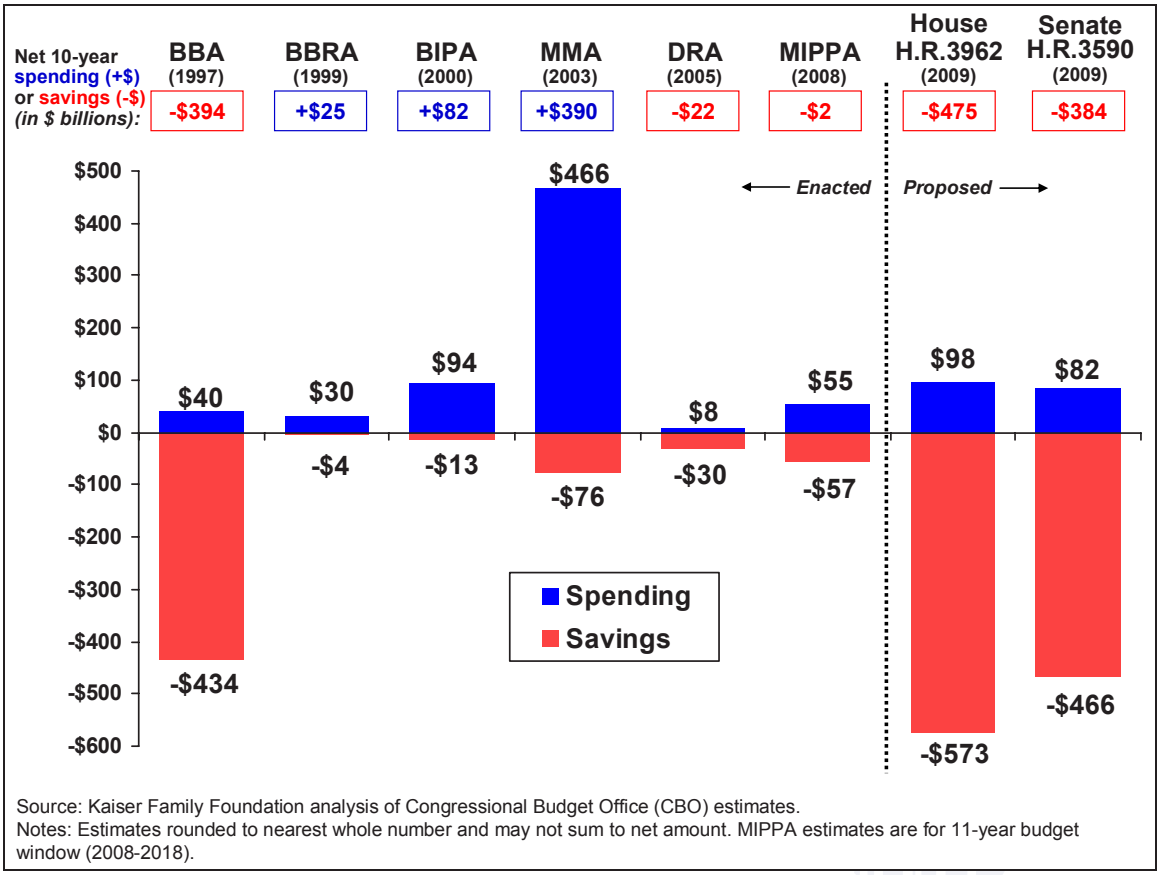
	Major Medicare Spending and Savings Provisions of Legislation		Change in 10-year Medicare spending (in $ billions)		Net 10-year effect (in $ billions)	Net as % of baseline
	Spending	**Savings**	Increase	Savings		
Laws						
BBA (1997)	• Increased payments to hospitals for Medicare+Choice enrollees • Increased coverage of screening tests and preventive measures • Created the Welcome to Medicare exam	• Decreased payments to several providers • Decreased Medicare+Choice payments • Increased Part B premiums	+$40	-$434	-$394	-12%
BBRA (1999)	• Increased payments to several providers • Increased Medicare+Choice payments	• Increased Part B premiums as an indirect effect of changes in Part B spending	+30	-4	+25	-1%
BIPA (2000)	• Increased payments for hospital services • Broadened Part B drug coverage • Waived the waiting period for enrollment by those disabled by ALS • Increased Medicare+Choice payments	• Increased Part B premiums as an indirect effect of changes in Part B spending	+94	-13	+82	+3%
MMA (2003)	• Established prescription drug benefit • Increased Medicare Advantage payments (formerly Medicare+Choice)	• Income-related Part B premiums • Increased Part B deductible	+466	-76	+390	+10%
DRA[1] (2005)	• Increased payment rates for dialysis services • Covered screening for abdominal aortic aneurysms	• Decreased payments to several providers • Changed risk adjustment methodology for Medicare Advantage plans • Accelerated the phase-in of income-related Part B premiums • Net effect of changes (both increases and decreases) in payments to physicians	+8	-30	-22	< -1%
MIPPA[1] (2008)	• Increased payments to physicians • Increased coverage of preventive and mental health services • Expanded eligibility for low-income benefits	• Decreased Medicare Advantage payments	+55	-57	-2	0%
Proposed Legislation[2]						
House H.R. 3962 (2009)	• Expands eligibility for low-income benefits • Phases out the Part D coverage gap by 2019 • Provides a 50% discount on brand-name drugs	• Decreases payments to several providers • Decreases Medicare Advantage payments	+98	-573	-475	-7%
Senate H.R. 3590 (2009)	• One-year physician payment increase • Reduces coverage gap by $500 in 2010 • Provides a 50% discount on brand-name drugs in the Part D coverage gap	• Decreases payments to several providers • Decreases Medicare Advantage payments • Establishes Independent Medicare Advisory Board to recommend savings proposals	+82	-466	-384	-5%

Source: Kaiser Family Foundation analysis of Congressional Budget Office estimates.

Notes: Net spending may not add up to spending and savings due to rounding; estimates rounded to the nearest whole number. [1] MIPPA cost estimate based on 11-year budget window; Net spending as a percent of baseline for MIPPA is rounded up from -0.02%; estimate for DRA is rounded from -0.47%. [2] For a detailed description of Medicare provisions in House and Senate health reform legislation, see Kaiser Family Foundation, "Side-by-Side Comparison of Key Medicare Provisions in 2009 Health Reform Legislation," http://www.kff.org/healthreform/7948.cfm.

Medicare Expenditure Changes Under Major Legislation in the Last 15 Years

Based on CBO 10-Year Cost Estimates



Source: Kaiser Family Foundation analysis of Congressional Budget Office (CBO) estimates.
Notes: Estimates rounded to nearest whole number and may not sum to net amount. MIPPA estimates are for 11-year budget window (2008-2018).

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