



OFFICE OF THE ACTUARY

TO: Marilyn B. Tavenner, Acting Administrator

DATE: April 30, 2013

FROM: Paul Spitalnic, Acting Chief Actuary

SUBJECT: 2013 IPAB Determination

Section 1899A of the Social Security Act requires the Chief Actuary of the Centers for Medicare & Medicaid Services (CMS) to determine by April 30, 2013 whether the projected 5-year average growth in per capita Medicare program spending exceeds a specified target. The 5 years to be used for a given determination year consist of the 2 prior years, the current year, and 2 following years; for 2013, therefore, the projected 5-year average will include growth rates from 2011 through 2015. For determination year 2013, the target is equal to the average of the projected 5-year average growth, ending in 2015, in the Consumer Price Index for All Urban Consumers (all items; United States city average) and the medical care expenditure category of the Consumer Price Index for All Urban Consumers (United States city average).

If the Chief Actuary makes a determination that the projected Medicare per capita growth rate exceeds the per capita target growth rate, the Chief Actuary will establish a savings target for the implementation year, which, for the 2013 determination year, is 2015. The applicable savings target for 2015 is the product of (i) the total amount of projected Medicare program spending for 2014; and (ii) the applicable percent for 2015, which is the lesser of 0.5 percent or the difference between the projected Medicare per capita growth rate and the per capita target growth rate.

The projected 5-year average growth in Medicare per capita spending was calculated as the sum of the average per capita spending under each of Parts A, B, and D using the baseline expenditure projections from the President's fiscal year (FY) 2014 Budget. For Parts B and D, the spending was net of premiums. Since the projected update to the single conversion factor applicable to payments for physicians' services under section 1848(d) of the Social Security Act is negative for 2014 and 2015, section 1899A(c)(6)(B)(ii) of the Social Security Act requires that the Medicare growth rate be calculated as if the update for these services were 0 percent rather than the negative percentage that would otherwise apply.

The resulting year-by-year growth rates that were used in the determination are shown in the following table. The projected 5-year average growth in Medicare per capita spending is 1.15 percent, and the 5-year average growth target is 3.03 percent. Because the projected 5-year Medicare per capita growth rate does not exceed the Medicare per capita target growth rate, there is no applicable savings target for implementation year 2015 (determination year 2013).

Calendar Year	Medicare Per Capita Growth	CPI Growth	Medical CPI Growth
2011	2.25%	3.14%	3.04%
2012	1.13%	2.09%	3.83%
2013	0.35%	2.12%	3.99%
2014	0.63%	2.20%	3.86%
2015	1.37%	2.20%	3.86%

Note: Percentages are multiplicative, not additive. Values are carried to additional decimal places and may not correspond to the rounded values presented above.

As noted, this determination was made based on the assumptions and methods used in the President's FY 2014 Budget. We will update this determination based on the assumptions and methods used in the 2013 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds (Trustees' Report), once the report is released. In future years, we will make the determinations using the assumptions and methods in the Trustees' Report.

Sincerely,

/s/

Paul Spitalnic, ASA, MAAA
Acting Chief Actuary

cc: Honorable Kathleen Sebelius, Secretary of Health and Human Services
Honorable John A. Boehner, Speaker of the House of Representatives
Honorable Harry M. Reid, Senate Majority Leader