



**Committee on Ways and Means
Subcommittee on Health
Democrats**

Representative Pete Stark – Ranking Member

Issue Brief – March 16, 2006

**THE TRUE COST OF THE BUSH DRUG PLAN:
CBO PROJECTS 10 MILLION FEWER BENEFICIARIES ENROLL IN 2006**

Spending estimates for the Bush prescription drug program have fluctuated each year since enactment, and the situation is further complicated by having two sets of estimates – those from the Administration and those from the Congressional Budget Office (CBO). Both have recently revised their 10-year spending estimates for program. CBO lowered its overall cost by approximately six percent when compared to their estimate from March, 2005. The Administration has also lowered its estimates.

President Bush and Congressional Republicans claim that private drug plans have lowered the projected cost of the program via competition. This is not true. The reduction is unrelated to the advent of Part D. In fact, several studies suggest that the new private drug plans are not lowering actual prices much at all.¹ The decline is due to changes in underlying drug spending patterns.

More importantly, this attention detracts from the real news in the new estimates from CBO – their assumption that 10 million fewer people will enroll in the Bush drug plan this year, relative to estimates from March, 2005.

Why 10-year Costs have Changed

The reduced 10-year estimates are due to the use of newer data that showed a substantial slowdown in prescription drug spending *prior* to the new drug program. Both CBO and the Administration used changes in the most recent National Health Expenditures (NHE) survey², which was based on 2004 data, to derive the new lower estimates. While CBO's projected prescription drug growth trend is unchanged, the baseline level of spending has been lowered because of the 2004 data.

The NHE analysis published this year examined data from 2004 – two years prior to the new private drug program. Relative to the last decade, the NHE found a substantial deceleration in spending for prescription drugs. According to the NHE, growth in retail prescription drug sales increased 8.2 percent in 2004, the first year of single-digit growth in 10 years. The slowdown in spending is attributable to a number of actions, none of which are related to private drug plan competition or Medicare. They include: increased use of generics, increased substitution of over-the-counter drugs, increased use of mail order, decreased use of certain drugs due to safety concerns and reduced insurance coverage for certain drugs.

Sharp Decrease in Participation

The Administration's participation estimates are virtually unchanged from last year. However, CBO has substantially decreased its participation estimates for 2006.

In the Medicare Fact Sheet from March, 2005, CBO assumed that 34 million beneficiaries would participate in 2006. According to this year's Medicare Fact Sheet, which is based on actual participation, CBO assumes that only 24 million will participate in 2006. This is 30 percent drop in participation.

¹ *Comparison of Medicare Drug Price Analysis* (Mar. 2006), *House Committee on Government Reform, Minority Staff*; *Medicare Drug Plan Prices Are Increasing Rapidly* (Feb. 2006), *House Committee on Government Reform, Minority Staff*; *Falling Short: Medicare Prescription Drug Plans Offer Meager Savings* (Dec. 21, 2005), *Families USA*; *New Medicare Drug Plans Fail to Provide Meaningful Drug Price Discounts* (Nov. 2005), *House Committee on Government Reform, Minority Staff*.

² *National Health Spending In 2004: Recent Slowdown Led By Prescription Drug Spending*, C. Smith et al, *Health Affairs*, Jan/Feb 2006

Fact Sheet for CBO's March 2006 Baseline: MEDICARE

By fiscal year

2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

BENEFICIARY COST SHARING:

Deductible (calendar year, in dollars)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Part A (per hospital admission)	\$912	\$952	\$972	\$1,012	\$1,052	\$1,086	\$1,140	\$1,188	\$1,240	\$1,288	\$1,344	\$1,400
Part B (per year)	110	124	135	138	143	148	157	157	168	178	189	205
Part D (per year)	not applicable	250	280	320	335	365	395	430	465	510	555	605

Monthly Premium (calendar year, in dollars)

Part A (for voluntary enrollees) ^{1/1}	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Part A	\$375	\$393	\$445	\$459	\$477	\$496	\$523	\$525	\$552	\$572	\$594	\$617
Part B ^{2/2}	78.20	85.50	93.40	93.40	96.40	100.30	105.20	106.50	113.70	120.50	128.60	139.40
Part D (on average) ^{3/3}	not applicable	24.50	34.00	39.80	41.10	44.70	47.50	51.40	55.40	60.30	65.40	70.90

Offsetting Receipts (fiscal year, in billions of dollars)

Part A Premiums	-\$2.3	-\$2.5	-\$2.7	-\$2.9	-\$3.0	-\$3.2	-\$3.3	-\$3.4	-\$3.6	-\$3.7	-\$3.9	-\$4.1
Part B Premiums ^{4/4}	-35.9	-41.3	-45.5	-47.3	-50.0	-53.5	-57.5	-60.5	-68.1	-73.2	-81.5	-92.1
Part D Premiums ^{5/5}	0	-2.5	-6.1	-8.8	-11.1	-13.1	-14.4	-16.3	-18.3	-20.9	-23.7	-26.7
Part D Payments by States	0	-3.8	-7.0	-7.7	-8.5	-9.2	-10.0	-10.9	-11.9	-12.9	-14.0	-15.5

Federal Share of Premiums Paid by Medicaid (fiscal year, in billions of dollars)

Part A	\$1.2	\$1.3	\$1.5	\$1.7	\$1.8	\$1.9	\$2.1	\$2.2	\$2.4	\$2.5	\$2.7	\$2.9
Part B	3.3	4.0	4.6	5.0	5.4	5.7	6.1	6.4	7.0	7.6	8.4	9.3
Total	4.5	5.3	6.2	6.7	7.2	7.6	8.2	8.6	9.4	10.2	11.1	12.2

ENROLLMENT:

Part A (average monthly enrollment during fiscal year, in millions)	41.5	42.1	42.8	43.6	44.4	45.3	46.2	47.5	48.9	50.3	51.7	53.1
Part B	39.5	40.0	40.7	41.4	42.1	42.9	43.8	45.0	46.3	47.6	48.9	50.2
Part D ^{6/6}	not applicable	24.2	30.5	34.4	38.4	39.9	40.7	41.7	42.8	44.1	45.3	46.5
Part D Low-income Subsidy	not applicable	8.7	9.5	10.0	10.3	10.5	10.8	11.1	11.5	11.9	12.2	12.6

Part A Fee-for-service Enrollment

Group Plan Enrollment ^{7/7}	5.6	6.2	6.8	7.2	7.5	7.8	8.1	8.4	8.6	8.8	9.0	9.3
Memo: Medicare+Choice or Medicare Advantage Enrollment	4.9	5.5	6.1	6.6	7.0	7.4	7.7	7.9	8.1	8.3	8.6	8.8

Share of Medicare Part A Enrollment:

Fee-for-service	86.6%	85.3%	84.0%	83.4%	83.0%	82.7%	82.4%	82.4%	82.4%	82.5%	82.5%	82.5%
Group Plans ^{7/7}	13.5%	14.7%	16.0%	16.6%	17.0%	17.3%	17.6%	17.6%	17.6%	17.5%	17.5%	17.5%

Growth in Enrollment:

Total Medicare Enrollment (Part A)	1.4%	1.4%	1.7%	1.8%	1.8%	1.9%	2.2%	2.7%	2.9%	2.9%	2.8%	2.7%
Fee-for-service (Part A)	0.8%	0.0%	0.2%	1.1%	1.4%	1.4%	1.9%	2.6%	2.9%	2.9%	2.8%	2.8%
Group Plans (Part A)	6.0%	10.9%	10.2%	5.8%	4.0%	4.1%	3.5%	2.9%	2.7%	2.7%	2.8%	2.5%

Notes:

- Persons 65 and older are entitled to Part A coverage (they do not pay a monthly Part A premium) if they are eligible for Social Security or Railroad Retirement monthly cash benefits. Persons 65 and older who are not entitled may obtain Part A coverage by paying a monthly premium equal to the full actuarial cost of that coverage.
- Monthly premium for beneficiaries not subject to the income-related surcharge.
- The premium for prescription drug coverage will be based on the bid that each plan submits. Thus, premiums will vary across plans.
- Part B premium receipts include the income-related premium.
- Excludes premiums paid by the low-income subsidy program.
- Includes enrollees in qualified prescription drug plans and beneficiaries in qualified union-sponsored or employer-sponsored plans.
- Includes Medicare Advantage, cost contracts, and demonstration contracts covering Medicare Parts A and B. Does not include Health Care Prepayment Plans (HCFPPs), which cover Part B services only. Does not reflect effect of use of stabilization funds on enrollment in regional preferred provider organizations.

Fact Sheet for CBO's March 2005 Baseline: MEDICARE

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By fiscal year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
BENEFICIARY COST SHARING:												
Deductible (calendar year, in dollars)												
Part A (per hospital admission)	\$876	\$912	\$944	\$980	\$1,016	\$1,056	\$1,096	\$1,136	\$1,180	\$1,224	\$1,272	\$1,320
Part B (per year)	100	110	112	117	121	125	131	141	144	155	163	172
Part D (per year)			250	270	295	320	345	375	405	440	475	515
Monthly Premium (calendar year, in dollars)												
Part A (for voluntary enrollees) /1	\$543	\$375	\$361	\$399	\$411	\$427	\$444	\$468	\$470	\$484	\$512	\$532
Part B /2	66.60	78.20	79.60	83.30	85.80	89.20	94.60	100.50	103.80	111.10	117.10	123.20
Part D (on average) /3			36.60	37.10	40.90	43.60	47.10	50.30	54.40	58.70	63.80	67.70
Offsetting Receipts (fiscal year, in billions of dollars)												
Part A Premiums	-\$1.6	-\$2.2	-\$2.3	-\$2.4	-\$2.5	-\$2.6	-\$2.7	-\$2.9	-\$2.9	-\$3.1	-\$3.2	-\$3.3
Part B Premiums /4	-30.3	-35.6	-38.1	-40.5	-43.0	-45.8	-49.9	-55.0	-58.9	-64.8	-71.4	-78.6
Part D Premiums /5	0	0	-6.0	-9.0	-10.5	-11.5	-14.3	-16.3	-18.3	-21.0	-23.8	-23.8
Part D Payments by States	0	0	-6.0	-9.0	-9.9	-10.8	-11.8	-12.7	-13.9	-15.2	-16.6	-18.0
Federal Share of Premiums Paid by Medicaid (fiscal year, in billions)												
Part A	\$0.9	\$1.1	\$1.2	\$1.3	\$1.4	\$1.5	\$1.6	\$1.7	\$1.8	\$1.9	\$2.0	\$2.2
Part B	3.2	3.5	3.8	4.2	4.6	4.9	5.3	5.7	6.1	6.7	7.3	7.9
Total	4.1	4.6	5.0	5.5	5.9	6.3	6.8	7.4	7.9	8.6	9.4	10.1
ENROLLMENT:												
Part A (fiscal year, in millions)	41.0	41.5	42.1	42.8	43.6	44.4	45.2	46.2	47.4	48.8	50.2	51.6
Part B	38.9	39.4	40.0	40.6	41.3	42.1	42.9	43.8	44.9	46.2	47.5	48.8
Part D /6	-- not applicable --	-- not applicable --	34.0	38.0	38.7	39.4	40.1	41.0	42.1	43.3	44.5	45.8
Part D Low-income Subsidy	-- not applicable --	-- not applicable --	9.0	9.8	10.3	10.6	10.8	11.1	11.5	11.9	12.3	12.6
Part A Fee-for-service Enrollment	35.7	36.0	36.2	36.3	36.7	37.2	37.7	38.4	39.5	40.6	41.8	43.0
Group Plan Enrollment /7	5.3	5.5	5.9	6.5	6.9	7.2	7.5	7.7	8.0	8.2	8.4	8.6
Memo: Medicare+Choice or Medicare Advantage Enrollment	4.7	4.9	5.3	5.9	6.4	6.8	7.1	7.4	7.6	7.8	8.0	8.3
Share of Medicare Part A Enrollment:												
Fee-for-service	87.1%	86.8%	86.0%	84.9%	84.2%	83.9%	83.5%	83.3%	83.2%	83.2%	83.3%	83.3%
Group Plans /7	12.9%	13.2%	14.0%	15.1%	15.8%	16.1%	16.5%	16.7%	16.8%	16.8%	16.7%	16.7%
Growth in Enrollment:												
Total Medicare Enrollment (Part A)	1.7%	1.3%	1.4%	1.6%	1.8%	1.9%	1.9%	2.2%	2.7%	2.9%	2.9%	2.8%
Fee-for-service (Part A)	1.9%	0.9%	0.5%	0.4%	1.0%	1.4%	1.4%	1.9%	2.6%	2.9%	2.9%	2.8%
Group plans (Part A)	0.2%	3.8%	7.7%	9.3%	6.3%	4.3%	4.2%	3.6%	3.0%	2.7%	2.8%	2.7%

Notes:

- 1/ Persons 65 and older are entitled to Part A coverage (they do not pay a monthly Part A premium) if they are eligible for Social Security or Railroad Retirement monthly cash benefits. Persons 65 and older who are not entitled may obtain Part A coverage by paying a monthly premium equal to the full actuarial cost of that coverage.
- 2/ Monthly premium for beneficiaries not subject to the income-related surcharge.
- 3/ The premium for prescription drug coverage will be based on the bid that each plan submits. Thus, premiums will vary across plans.
- 4/ Part B premium receipts include the income-related premium.
- 5/ Excludes premiums paid by the low-income subsidy program.
- 6/ Includes enrollees in qualified prescription drug plans and beneficiaries in qualified union-sponsored or employer-sponsored plans.
- 7/ Includes Medicare Advantage, cost contracts, and demonstration contracts covering Medicare Parts A and B. Does not include Health Care Prepayment Plans (HCPPs), which cover Part B services only. Does not reflect effect of use of stabilization funds on enrollment in regional preferred provider organizations.