



November 20, 2003

Honorable Don Nickles
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

As you requested, I am pleased to provide additional information about CBO's cost estimate for the conference agreement on H.R. 1, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

Table 1 provides year-by-year details on CBO's projections of the major elements of the prescription drug program that would be established under title I. Table 2 displays additional information about the impact of H.R. 1 on Medicare beneficiaries. Table 3 summarizes the estimated impact of the legislation on state Medicaid costs—a net savings of \$17.2 billion over the 2004-2013 period. Table 4 presents information about the number of beneficiaries eligible for and expected to participate in the low-income subsidies provided under title I.

CBO estimates that, of those participants in the Medicare prescription drug program who will have relatively generous employer-sponsored drug benefits under current law, about 2.7 million would not receive supplemental drug benefits from those employer-sponsored plans under H.R. 1. That number represents about 23 percent of *participants in the prescription drug program* who will have such employer-sponsored drug benefits under current law (the approach used in CBO's original cost estimate for H.R. 1 and S. 1). Other Part B enrollees have employer-sponsored drug benefits under current law and would generally not participate in the prescription drug program. In particular, CBO assumes that active workers and those with prescription drug coverage through the Federal Employees Health Benefits program and the Tricare for Life program would continue to receive prescription drug coverage through those programs and would generally choose not to participate in the Medicare prescription drug program. Relative to *all* Part B enrollees who will

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have relatively generous employer-sponsored drug benefits under current law, CBO estimates that 17 percent would not receive supplemental drug benefits from those plans under H.R. 1.

I hope this information is helpful to you. If you have any questions about this material, we would be happy to answer them. The CBO staff contact is Tom Bradley, who can be reached at 226-9010.

Sincerely,

Douglas Holtz-Eakin
Director

Enclosures

cc: Honorable Charles E. Grassley
Chairman
Committee on Finance

Honorable Max Baucus
Ranking Democratic Member

Identical letters sent to the Honorable Jim Nussle and the Honorable Kent Conrad.

Table 1. CBO Estimate of the Effect on Federal Direct Spending and Revenues of Title I of the Conference Agreement for H.R. 1

(Outlays in billions of dollars, by fiscal year)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004-08	2004-13
Medicare												
Benefits and insurance load	0	0	33	50	56	60	66	72	80	89	139	507
Premiums	0	0	-9	-13	-14	-15	-17	-18	-21	-23	-36	-131
Alternative subsidy to employers and unions	0	0	5	7	8	8	9	10	11	13	19	71
Subtotal	0	0	29	44	49	53	59	64	71	79	122	448
Spending by Medicaid and other programs on drugs for Medicare enrollees	0	0	-7	-15	-17	-19	-21	-23	-25	-28	-39	-155
Reduction in Federal Medicaid payments ("clawback")	0	0	-6	-9	-10	-11	-12	-13	-14	-15	-25	-88
Low-income subsidy	*	1	9	18	21	23	26	28	31	35	48	192
Other direct spending and interaction with Title XI	*	*	1	1	2	2	2	2	2	2	4	14
Total direct spending	*	1	26	39	45	49	54	58	65	73	110	409
Federal tax revenues												
On-budget	0	0	*	*	1	1	1	1	1	1	1	5
Off-budget	0	0	*	*	*	*	*	*	*	*	1	2
Total federal tax revenues	0	0	*	1	1	1	1	1	1	1	2	7
Net increase in deficit or reduction in surplus	*	1	25	38	44	48	53	58	64	72	108	403
Memorandum: Change in state Medicaid spending	*	*	1	-1	-1	-2	-2	-3	-4	-4	-2	-17

MEMORANDUM:

Characteristics of the proposed benefit (calendar year):

Average monthly premium		\$35	\$37	\$41	\$43	\$47	\$49	\$54	\$58
Deductible		\$250	\$275	\$300	\$325	\$350	\$380	\$410	\$445
Coinsurance rates (percent)		25%, 5%	25%, 5%	25%, 5%	25%, 5%	25%, 5%	25%, 5%	25%, 5%	25%, 5%
Initial benefit cap									
Program spending at cap		\$1,500	\$1,646	\$1,808	\$1,946	\$2,115	\$2,265	\$2,460	\$2,666
Beneficiary spending at cap		\$750	\$824	\$903	\$974	\$1,055	\$1,135	\$1,230	\$1,334
Total spending at cap		\$2,250	\$2,470	\$2,710	\$2,920	\$3,170	\$3,400	\$3,690	\$4,000
Out-of-pocket spending at catastrophic limit (enrollee without other drug coverage)		\$3,600	\$3,950	\$4,350	\$4,650	\$5,050	\$5,450	\$5,900	\$6,400
Total spending at catastrophic limit (enrollee without other drug coverage)		\$5,100	\$5,596	\$6,158	\$6,596	\$7,165	\$7,715	\$8,360	\$9,066

Key assumptions:

Distribution of Part B enrollees, by source of prescription drug coverage	<u>2006-13 Average</u>
Coverage through Medicare drug benefit	73%
Participants in alternative employer and union subsidy	20%
Other prescription drug coverage	7%
No prescription drug coverage	0%

Price effect (in the 10th year): 3.5%

Source: Congressional Budget Office.

Notes: Costs or savings of less than \$500 million are shown with an asterisk. Components may not sum to totals because of rounding.

For background on the concepts used here, see CBO cost estimate for H.R. 1 and S. 1 (July 22, 2003).

Table 2. Information on CBO's Cost Estimate of the Conference Agreement for H.R. 1

	CY 2006	CY 2013
PART D PROVISIONS		
Average Total Drug Spending for Part D Participants	\$3,167	\$5,425
Average Cost of Standard Drug Benefit per Participant, Gross ^{1/}	\$1,610	\$2,701
Average Cost of Standard Drug Benefit per Participant, Net of Premiums ^{1/}	\$1,192	\$2,009
Average Cost-Sharing Covered for Participants in Low-Income Subsidy	\$1,400	\$2,500
Marketing, Member Acquisition and Retention, Risk Premium and Related Administrative Costs as a Share of Covered Benefits	11%	6%
Share of Participants in Reduced-Risk or "Fallback" Drug Plans	18%	5%
Gross Drug Savings for Previously Uninsured Individuals (also referred to as the "Cost Management Factor" (CMF))		
Average for Drug Plans Bearing Full Statutory Risk Levels	20%	25%
Average for Reduced-Risk and "Fallback" Drug Plans	12.5%	12.5%
PART B PROVISIONS		
Part B Deductible	\$115	\$166
Beneficiaries Subject to the Income-Related Part B Premium		
Number of Beneficiaries (Millions) ^{2/}	1.2	2.8
As a Share of Part B Enrollees ^{2/}	3%	6%

Source: Congressional Budget Office

Note: For background on the concepts used here, see CBO cost estimate for H.R. 1 and S. 1 (July 22, 2003).

1. Average costs exclude premium and cost-sharing subsidies for certain low-income beneficiaries. Figures also exclude beneficiaries with employer-sponsored coverage whose former employers receive the alternative subsidy.
 2. The income-related premium would begin in 2007; figures in the first column are for 2007.
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Table 3. Estimated Change in State Medicaid Outlays under Title I of the Conference Agreement for H.R. 1

(Outlays in billions of dollars, by fiscal year)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004-08	2004-13
Spending on prescription drugs	0.0	0.0	-5.2	-11.2	-12.4	-13.8	-15.3	-16.9	-18.8	-20.9	-28.9	-114.6
Reduction in federal Medicaid payments ("clawback")	0.0	0.0	5.7	9.1	10.0	10.8	11.7	12.6	13.7	14.9	24.8	88.5
Spending for newly enrolled dual eligibles, QMBs, and SLMBs	0.0	0.1	0.2	0.5	0.6	0.7	0.8	0.9	0.9	1.0	1.5	5.8
Administration and other spending	0.1	0.1	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.5	1.1	3.1
Total	<u>0.1</u>	<u>0.2</u>	<u>0.9</u>	<u>-1.3</u>	<u>-1.5</u>	<u>-1.9</u>	<u>-2.4</u>	<u>-3.1</u>	<u>-3.7</u>	<u>-4.4</u>	<u>-1.5</u>	<u>-17.2</u>

Source: Congressional Budget Office.

Notes:

1. These estimates do not include the effects of the Medicaid provisions in Title X.
 2. QMB = Qualified Medicare Beneficiary; SLMB = Specified Low-Income Medicare Beneficiary.
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Table 4. Eligibility of Medicare Beneficiaries in 2006 for Low-Income Subsidies under the Conference Agreement for H.R. 1, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003
(millions of beneficiaries)

	Income (Percent of the Federal Poverty Level)							Total
	Below 100%	101% to 120%	121% to 135%	136% to 150%	151% to 175%	176% to 200%	Above 200%	
Number of Eligible Beneficiaries								
Subsidy A								
Dual eligibles	4.4	0.9	0.2	0.2	0.2	0.1	0.3	6.4
All other beneficiaries	2.7	2.0	1.1	0.0	0.0	0.0	0.0	5.8
Subtotal	7.1	2.9	1.3	0.2	0.2	0.1	0.3	12.2
Subsidy B	0.2	0.3	0.2	1.2	0.0	0.0	0.0	1.9
Total eligible beneficiaries	7.3	3.2	1.6	1.3	0.2	0.1	0.3	14.1
Not eligible for low-income subsidies	0.4	0.4	0.5	0.5	2.3	2.4	19.0	25.4
Total Medicare beneficiaries	7.7	3.6	2.0	1.8	2.5	2.4	19.3	39.4

Components may not sum to totals because of rounding.

Eligibility and benefits under Subsidy A:

1. Individuals would qualify if they have incomes below 135 percent of the federal poverty level and countable assets of less than \$6,000 for an individual or \$9,000 for a couple. Those amounts would be adjusted for inflation in later years. Dual eligibles would also qualify, regardless of their income or assets.
2. Eligible individuals would receive a full premium subsidy and pay only nominal cost-sharing up to the catastrophic level; cost-sharing for dual eligibles in nursing homes or with incomes below the federal poverty level would be further reduced or eliminated. Individuals would pay no cost-sharing above the catastrophic level.

Eligibility and benefits under Subsidy B:

3. Individuals who do not qualify for Subsidy A would be eligible for Subsidy B if they have incomes below 150 percent of the federal poverty level and countable assets of less than \$10,000 for an individual or \$20,000 for a couple. Those amounts would be adjusted for inflation in later years.
4. Eligible individuals would pay a lower deductible and reduced cost-sharing for spending below the catastrophic level. They would also receive a premium subsidy that would be phased out for individuals with incomes between 135 percent and 150 percent of the federal poverty level.

Participation rates:

5. By 2013, CBO estimates that about 75 percent of beneficiaries eligible for Subsidy A would be receiving that subsidy and about 35 percent of beneficiaries eligible for Subsidy B would be receiving that subsidy.

Source: Congressional Budget Office.