



February 9, 2005

Honorable William “Bill” M. Thomas
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

At your request, this letter discusses the Congressional Budget Office’s (CBO’s) current projection of spending for the Medicare Part D benefit. That estimate, which was published in the January 2005 *Budget and Economic Outlook*, is nearly identical to the cost estimate for Part D that we prepared in 2003 (see attached table).

In November 2003, CBO estimated that the Medicare Modernization Act (Public Law 108-173) would result in additional direct spending totaling about \$395 billion over the 2004-2013 period. That amount was the net of a number of different types of expenditures and receipts that would result from the legislation. It included an estimated \$552 billion in mandatory spending for Medicare Part D—consisting of \$771 billion in payments for benefits and mandatory administrative costs, offset by \$219 billion in premiums paid by beneficiaries and payments by states. (Those payments by states represent part of their share of the savings from shifting some Medicaid spending for prescription drugs to Medicare.) Those costs were further offset by net savings of almost \$13 billion from changes to Parts A and B of Medicare and estimated savings of \$145 billion in Medicaid and other federal programs because the Part D benefit would reduce spending in those federal programs (largely by shifting some spending for prescription drugs from those programs to Medicare).

CBO recently updated its baseline projections for all federal programs. As part of that exercise, we modified our estimate of the Part D benefits slightly, mostly to reflect the slightly higher inflation rate in CBO’s most recent economic assumptions. That change added about \$6 billion to the projected

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cost of the Part D program over the 2004-2013 period, raising it from \$552 billion to \$558 billion. The estimated savings to Medicaid and other federal programs are incorporated in our baseline projections for those programs and are not separately identifiable.

The 10-year projection period that CBO uses for its baseline has changed since the MMA was enacted; it now extends through 2015, thus encompassing two more years of prescription drug benefits. Adding more years to the period covered by the estimate for any program will, of course, add to the total cost being discussed, even when the estimate has not changed at all. By CBO's estimate, net mandatory spending for Medicare Part D will total about \$240 billion during those two additional years.

CBO is currently preparing another update of its baseline projections. As part of the update process, we are reviewing the recently published final rules for the Part D and Medicare Advantage programs and refining our projection methodologies. The new projections, which will be released in March, will reflect those updated analyses and new information in the final rules.

I hope this information is helpful to you. The staff contact for further information is Tom Bradley.

Sincerely,

Douglas Holtz-Eakin
Director

Attachment

cc: Honorable Charles B. Rangel
Ranking Democrat

Comparison of CBO's January 2005 Medicare Prescription Drug Baseline and the CBO Estimate of MMA

CBO Estimate of Drug Provisions in Medicare Modernization Act

See Table 1 in "A Detailed Description of CBO's Cost Estimate for the Medicare Prescription Drug Benefit"

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2004- 2013</u>
Benefits and Mandatory Administrative Costs	0.6	1.5	46.8	74.8	84.2	92.0	101.3	110.6	122.8	136.8			771.3
Part D Premiums	0.0	0.0	-9.1	-12.8	-14.3	-15.5	-17.0	-18.5	-20.6	-22.9			-130.6
Payments by States	<u>0.0</u>	<u>0.0</u>	<u>-5.7</u>	<u>-9.1</u>	<u>-10.0</u>	<u>-10.8</u>	<u>-11.7</u>	<u>-12.6</u>	<u>-13.7</u>	<u>-14.9</u>			<u>-88.5</u>
Subtotal, Medicare Part D Offsetting Receipts	0.0	0.0	-14.8	-21.9	-24.3	-26.3	-28.7	-31.1	-34.2	-37.8			-219.1
Subtotal, Net Medicare Part D Outlays	0.6	1.5	32.1	52.9	59.9	65.7	72.6	79.5	88.5	98.9			552.2
Savings to Medicaid and Other Federal Programs /1	0.0	0.0	-6.6	-14.2	-15.6	-17.4	-19.3	-21.4	-23.8	-26.4			-144.7
Net Changes to Federal Spending from Drug Provisions	0.6	1.5	25.5	38.7	44.3	48.3	53.3	58.1	64.7	72.5			407.5
Other Spending Effects	3.2	4.5	2.0	1.5	-0.3	-1.8	-3.5	-5.1	-6.0	-7.0			-12.5
Net Cost of MMA	3.8	6.0	27.5	40.2	44.0	46.5	49.8	53.0	58.7	65.5			395.0
CBO January 2005 Part D baseline													
Benefits and Mandatory Administrative Costs	0.7	1.8	46.8	75.1	84.8	92.8	102.3	111.8	124.3	138.5	155.2	173.8	778.8
Part D Premiums	0.0	0.0	-9.1	-12.9	-14.4	-15.6	-17.2	-18.7	-20.8	-23.2	-25.9	-29.0	-131.8
Payments by States	<u>0.0</u>	<u>0.0</u>	<u>-5.7</u>	<u>-9.1</u>	<u>-10.1</u>	<u>-10.9</u>	<u>-11.8</u>	<u>-12.7</u>	<u>-13.8</u>	<u>-15.1</u>	<u>-16.5</u>	<u>-18.0</u>	<u>-89.3</u>
Subtotal, Medicare Part D Offsetting Receipts	0.0	0.0	-14.8	-22.0	-24.5	-26.5	-29.0	-31.4	-34.7	-38.3	-42.5	-47.0	-221.1
Total, Net Medicare Part D Outlays	0.7	1.8	32.0	53.1	60.3	66.3	73.3	80.4	89.6	100.2	112.7	126.7	557.7
Savings to Medicaid and Other Federal Programs	Not Separately Identifiable												
Other Spending Effects	Not Separately Identifiable												

/1 Note: Medicare Part D spending is larger than the effect on the federal budget of establishing the Medicare prescription drug benefit, because it includes some spending that, under prior law, would have been incurred by Medicaid and other federal health programs. That "prior law" spending is no longer separately identifiable.

/2 Differences in 2004 and 2005 reflect actual spending for the drug card in 2004 and revised projections for the drug card in 2005. Differences in 2006 and subsequent years reflect the effect of new economic projections.