



May 18, 2009

Honorable Mike Crapo
United States Senate
Washington, DC 20510

Dear Senator:

As you requested, CBO is providing additional information regarding the Medicare Advantage (MA) payment options discussed on April 29, 2009, during the Senate Committee on Finance's meeting entitled "Delivery System Reform." The Committee discussed four options that would change how the MA benchmarks for federal payments are set.

Projected Medicare Advantage Enrollment and Costs under Current Law

Under current law, CBO projects that the number of Medicare beneficiaries enrolled in Medicare Advantage plans will grow from 10.6 million in 2009 to 13.9 million in 2019. We also project that the amount by which payments to plans will exceed their bids will grow from an average of \$87 per member per month in 2009 to \$135 per member per month in 2019. Medicare Advantage plans use those additional payments to provide additional benefits to their enrollees in the form of coverage of benefits that are not covered by Medicare, reduced cost sharing for Medicare-covered benefits, or rebates of all or part of the Part B or Part D premium. CBO does not have a basis for projecting the distribution of additional benefits across those categories.

You asked for data on plan availability in rural and urban areas. CBO currently is only able to categorize the effects on spending and enrollment for various areas based on whether plans' bids currently are above or below per capita costs in the fee-for-service (FFS) sector. Those areas are correlated with, but not identical to, urban versus rural status. Just under half of MA enrollment is in areas where plans' bids are below FFS costs, which tend to be urban areas. Bids in rural areas tend to be higher than FFS costs.

The amount of additional benefits that a plan provides depends on the difference between the plan's bid and a benchmark that is set using a formula. The benchmarks currently range from about 100 percent to over 150 percent of local per capita spending in the fee-for-service sector. In general, the difference between bids and benchmarks (the additional benefits) tends to be largest in areas where plans are able to provide Medicare-covered services for less than the average cost per enrollee in the FFS sector. On average, CBO projects that plans in areas with bids that currently are below FFS costs will offer additional benefits in 2019 that amount to \$172 per member per month. By contrast, CBO projects that plans in areas where bids are above FFS costs will offer \$98 in additional benefits per member per month in 2019 (see Table 1).

Table 1. Projections of MA Enrollment and Additional Benefits Under Current Law, 2009 and 2019

	Enrollment (millions)		Average Additional Benefits (dollars per month)	
	2009	2019	2009	2019
All Areas	10.6	13.9	87	135
Bids Less than 100% FFS	4.7	6.9	120	172
Bids Greater than 100% FFS	5.9	7.0	61	98

Note: MA = Medicare Advantage; FFS = fee-for-service.

Effects of Alternative Policies

As noted above, the Committee on Finance discussed four alternatives to current law for setting MA benchmark rates. Those four policy options are summarized below, along with additional information that you requested regarding the projected changes in MA enrollment and average benefits under each alternative.

Blend Benchmark Rates Based on MedPAC Recommendation. This option, derived from a recommendation by the Medicare Payment Advisory Commission (MedPAC), would set benchmarks equal to a blend of local average per capita fee-for-service spending (75 percent) and national average per capita spending in the fee-for-service sector (25 percent). CBO estimates that this policy would reduce federal spending by \$40 billion over the 2010-2014 period and \$133 billion over the 2010-2019 period.

Under this policy, CBO estimates that the average amount of additional benefits in 2019 would be reduced from \$135 per member per month under current law to \$58 per member per month, with an average of \$84 in areas where bids are below 100 percent of FFS costs and \$19 in areas where bids are above FFS costs (see Table 2). We estimate that the number of beneficiaries enrolled in Medicare Advantage plans in 2019 would be 5.1 million lower than under current law, with most of the reduction (3.4 million) occurring in areas where bids currently are above FFS costs.

Benchmark Reduction and Gradual Phase-Down. This option would reduce the growth rates of MA benchmarks gradually over four years, with different phase-in schedules for each county depending on the level of benchmarks under current law. Counties with benchmarks that are equal to local fee-for-service spending under current law would receive smaller reductions, while counties with benchmarks greater than 126 percent of local fee-for-service spending would receive the largest reductions. CBO estimates that this policy would reduce federal spending by \$20 billion over the 2010-2014 period and \$79 billion over the 2010-2019 period.

CBO estimates that enrollment under this policy would drop by 1.8 million by 2019, with most of that drop occurring in areas where bids are above FFS costs. We estimate that the average additional benefits would decline from \$135 per member per month in 2019 under current law to \$80 per member per month in 2019; the average amount of additional benefits would be \$119 where bids are below FFS costs and \$32 where bids are above FFS costs.

Table 2. Effects of Four MA Policies on Enrollment and Additional Benefits, By Bids as a Percent of Local Fee-For-Service Per Capita Spending

	Reduction in Enrollment, 2019		Reduction in Spending, 2010-2019	Average Additional Benefits, 2019
	Percent	Millions	Billions of Dollars	Dollars Per Month
Blend Benchmark Rates Based on MedPAC Recommendation				
All Areas	-37	-5.1	133	58
Bids Less than 100% FFS	-24	-1.7	56	84
Bids Greater than 100% FFS	-50	-3.4	77	19
Benchmark Reduction and Gradual Phase-Down				
All Areas	-13	-1.8	79	80
Bids Less than 100% FFS	-6	-0.4	29	119
Bids Greater than 100% FFS	-20	-1.4	50	32
Competitive Bidding Based on Policy in the President's Budget				
All Areas	-51	-7.0	159	0
Bids Less than 100% FFS	-52	-3.6	80	0
Bids Greater than 100% FFS	-51	-3.5	80	0
Competitive Bidding with Bonus Payments				
All Areas	-19	-2.6	108	46
Bids Less than 100% FFS	-27	-1.9	64	47
Bids Greater than 100% FFS	-11	-0.8	44	45

Memorandum

MA Enrollment and Average Benefit under Current Law

All Areas	n.a.	13.9	n.a.	135
Bids Less than 100% FFS	n.a.	6.9	n.a.	172
Bids Greater than 100% FFS	n.a.	7.0	n.a.	98

Note: MA = Medicare Advantage; FFS = fee-for-service; n.a. = not applicable.

Competitive Bidding Based on the Policy in the President’s Budget.

This option would set benchmarks equal to the average of local plan bids, and would no longer tie benchmarks to fee-for-service spending. Similar to current law, plans that bid above the new benchmark would be required to charge the difference to their enrollees and plans that bid below the benchmark would be allowed to pass the difference through to their enrollees in the form of extra benefits. CBO estimates that this policy would reduce federal spending by \$35 billion over the 2010-2014 period and \$159 billion over the 2010-2019 period.

On average, the value of additional benefits in 2019 in all areas would be zero; however, some plans in any given market might offer additional benefits worth a few dollars, whereas their competitors would charge additional premiums of a few dollars. CBO estimates that enrollment in MA plans in 2019 would be 7.0 million lower than under current law, with those reductions being evenly distributed across areas with bids that currently are above or below FFS costs.

CBO expects that Medicare Advantage plans would continue to be attractive to some beneficiaries—even if the plans charged a supplemental premium and did not provide Medicare-subsidized additional benefits. That expectation is based on the experience of the mid-1990s, when many plans charged a supplemental premium. Thus, CBO estimates that enrollment would still amount to about half of the projected enrollment in Medicare Advantage plans under current law.

Competitive Bidding with Bonus Payments. This option is similar to the President’s budget policy described above, with additional bonus payments available to plans that implement care coordination programs and other evidence-based quality improvement mechanisms. CBO estimates that this policy would reduce federal spending by \$25 billion over the 2010-2014 period and \$108 billion over the 2010-2019 period.

On average, the value of additional benefits would be about \$46 per member per month in 2019, both in areas with bids currently above FFS costs and in areas with bids below FFS costs. CBO estimates that enrollment in Medicare Advantage plans in 2019 would be 2.6 million lower than under current law, with most of those reductions (1.9 million) occurring in areas where bids currently are below FFS costs.

Honorable Mike Crapo
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I hope this information is helpful to you. If you wish further details on these estimates, we will be pleased to provide them. The CBO staff contact is Mindy Cohen.

Sincerely,

for Robert A. Elmendorf

Douglas W. Elmendorf
Director

cc: Honorable Max Baucus
Chairman
Committee on Finance

Honorable Chuck Grassley
Ranking Member

Identical Letters sent to the Honorable Jon Kyl, the Honorable Jim Bunning, the Honorable John Cornyn, the Honorable Mike Enzi, and the Honorable Orrin G. Hatch.