



October 26, 2009

Honorable Judd Gregg
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Senator:

This letter responds to your request for information on the effects of S. 1776, the Medicare Physicians Fairness Act of 2009. Under current law, the Congressional Budget Office (CBO) estimates that Medicare’s payment rates for physicians’ services will be reduced by about 21 percent in January 2010 and by about 6 percent annually for several subsequent years. S. 1776 would repeal the Sustainable Growth Rate (SGR) formula, which determines the updates to those payment rates, and permanently freeze those rates. CBO estimates that enacting S. 1776 would increase direct spending by \$247 billion over the 2010-2019 period, relative to CBO’s current baseline projections, which assume the payment rate reductions outlined above. (The legislation would not affect federal revenues.) The estimated budgetary impact of S. 1776 is shown in the following table.

	By Fiscal Year, in Billions of Dollars										2010-	2010-
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2014	2019
CHANGES IN DIRECT SPENDING												
Medicare Physician Fee Schedule	7	12	15	18	22	25	29	33	36	39	74	236
Medicare Advantage and TRICARE	0	5	5	6	7	9	11	12	12	14	22	80
Part B Premium Receipts	<u>0</u>	<u>-5</u>	<u>-6</u>	<u>-5</u>	<u>-6</u>	<u>-8</u>	<u>-9</u>	<u>-10</u>	<u>-10</u>	<u>-11</u>	<u>-22</u>	<u>-70</u>
Net Changes	7	12	14	19	23	26	31	35	38	42	75	247

Notes: TRICARE is the health plan operated by the Department of Defense.

Part B is the voluntary portion of the Medicare program that pays the costs of physicians’ and other outpatient services; beneficiaries pay premiums that cover about 25 percent of those costs.

Components may not sum to totals because of rounding.

Repealing the SGR formula and replacing it with a freeze of payment rates would increase the fees paid to physicians under Medicare by about \$236 billion over the 10-year budget projection window. That increase in Medicare spending for physicians' services would also result in higher spending for both the Medicare Advantage (MA) program and the Department of Defense's TRICARE program. CBO estimates those changes would sum to about \$80 billion over the budget window. MA spending would rise because the "benchmarks" that Medicare uses to determine how much the program pays for MA enrollees are adjusted for changes in Medicare spending per beneficiary in the fee-for-service sector. The benchmarks have been set for 2010 and will not be changed, so there would be no impact on MA spending until 2011. The TRICARE program uses Medicare's physician fee schedule to pay for physicians' services.

Beneficiaries enrolled in Part B of Medicare pay premiums that offset about 25 percent of the costs of those benefits. (All of the changes in Medicare spending that would result from enacting S. 1776 would be for Part B benefits.) Therefore, about one-quarter of the increase in Medicare spending would be offset by changes in those premium receipts. The premium for 2010 has already been set and will not be changed, so S. 1776 would have no effect on Part B premium receipts until 2011. Over the 2011-2019 period, CBO estimates that aggregate Part B premiums would increase by about \$70 billion. Premium collections are recorded as offsetting receipts (a credit against direct spending).

On July 13, 2009, the Department of Health and Human Services issued a proposed rule that would remove physician-administered (P-A) drugs from the calculation of the SGR retroactively and prospectively. If the rule becomes final, baseline physician spending would be higher over the next 10 years. Because the rule is proposed, CBO has incorporated 50 percent of the effect into its scorekeeping baseline; it will incorporate the entire effect if the rule becomes final in early November. The estimate of S. 1776's impact on direct spending would be about \$40 billion lower over the 2010-2019 period if the rule, as proposed, becomes final.

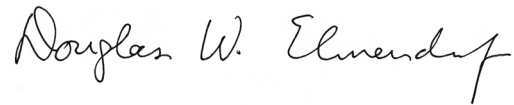
CBO does not have an estimate of the effect of S. 1776 on national health expenditures. However, enacting the legislation would increase net federal spending by about \$40 billion in 2019, which is a 5 percent increase in net Medicare spending projected for that year.

Honorable Judd Gregg

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I hope you find this information helpful. The CBO staff contacts are Tom Bradley and Lori Housman.

Sincerely,

A handwritten signature in black ink that reads "Douglas W. Elmendorf". The signature is written in a cursive style with a large initial 'D' and a long, sweeping tail on the 'f'.

Douglas W. Elmendorf
Director

cc: Honorable Kent Conrad
Chairman

Honorable Max Baucus
Chairman
Committee on Finance

Honorable Chuck Grassley
Ranking Member

Honorable Debbie Stabenow

Identical letter sent to the Honorable Paul Ryan.