

February 3, 2003

To: Interested Parties

From: Tom Bradley

Subject: Projected spending for prescription drugs by and on behalf of Medicare enrollees.

The Congressional Budget Office (CBO) has recently updated its projection of aggregate spending for outpatient prescription drugs by and on behalf of Medicare beneficiaries. As shown in the attached table, CBO estimates that spending for outpatient prescription drugs for Medicare beneficiaries will total \$1.84 trillion over the 2004-2013 period.

That estimate, which takes into account recent information and reflects other steps we have taken to improve our projection, represents an increase of about 4 percent over our projection last year that spending on prescription drugs for Medicare beneficiaries would total \$1.77 trillion over the 2003-2012 period.

Starting the 10-year projection period one-year later is the main reason for that increase, since it adds a relatively expensive year (2013) to the projections while dropping a relatively inexpensive year (2003). Indeed, that shift in the projection period would by itself increase our projection by about 11 percent. That increase was reduced, however, for two reasons, both of which take into account new information we have received about drug spending:

- First, we now estimate that actual spending for prescription drugs for Medicare beneficiaries was about 2.3 percent lower in 2000 than we had estimated in last year's projection. That revision is based largely on new information about the degree to which drug spending is under-reported in surveys, which led us to use a slightly smaller adjustment for under-reporting in our estimates.
- Second, compared to last year, we have decreased slightly our projections of the rate of growth in drug spending, due in part to slower-than-expected economic growth in the near term.

The combination of a lower starting point and slower growth results in projected spending on prescription drugs for Medicare beneficiaries that is lower in each year than we projected a year ago. That reduction, which averages 7 percent over the 2003-2012 period, grows from 5 percent in 2003 to 8 percent in 2012. (The 4 percent increase in CBO's projection of spending during the 2004-2013 period, compared to last year's projection for the 2003-2012 period, is the result of combining the average reduction of 7 percent in projected spending for each year with the 11 percent increase from starting the projection period one year later.)

It is important to note the estimated cost of a specific Medicare drug benefit proposal from last year (but with effective dates delayed by one year) could change by more or less than the change in the baseline, depending on the details of the proposal.

Projected Spending on Prescription Drugs By or On Behalf of Medicare Enrollees

	By Fiscal Year												
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2003-2012	2004-2013
CURRENT PROJECTION													
Total Spending on Outpatient Prescription Drugs for Medicare Beneficiaries (billions of dollars)	95	107	120	134	150	167	186	206	229	255	284	1,649	1,839
Rate of Increase (in percent)		13	12	12	12	12	11	11	11	11	12		

PREVIOUS PROJECTION (2002)													
Total Spending on Outpatient Prescription Drugs for Medicare Beneficiaries (billions of dollars)	100	113	128	143	160	179	200	222	248	278	n/a	1,773	n/a
Rate of Increase (in percent)		14	13	12	12	12	12	11	12	12	n/a		
Change in Projected Spending from Previous Projection (in percent)	-5	-6	-6	-6	-6	-7	-7	-7	-8	-8	n/a	-7	n/a

Memorandum:

The current estimate of spending over the 2004-2013 projection period (\$1,839 billion) is about 4 percent larger than last year's estimate of \$1,773 billion in spending over the 2003-2012 projection period.

SOURCE: Congressional Budget Office.

NOTE: n/a = not available.

TABLE 1. SPENDING ON PRESCRIPTION DRUGS BY OR FOR MEDICARE ENROLLEES

Year	Median Rx Spending	Mean Rx Spending (\$ / fye)	Rate of Growth	Medicare Enrollment (millions)	Total Rx Spending (millions)	Rate of Growth	Cumulative Rx Spending (\$billions)	
CURRENT BASELINE (2003)								
2003	1390	2318	-	40.8	94,681	-	2003-2012	1,649
2004	1548	2584	11.5%	41.4	107,056	13.1%	2004-2013	1,839
2005	1716	2863	10.8%	42.0	120,243	12.3%	2004-2012	1,554
2006	1891	3155	10.2%	42.6	134,335	11.7%	2006-2013	1,611
2007	2076	3461	9.7%	43.3	149,841	11.5%		
2008	2272	3786	9.4%	44.2	167,205	11.6%		
2009	2479	4130	9.1%	45.0	186,050	11.3%		
2010	2697	4493	8.8%	45.9	206,197	10.8%		
2011	2926	4876	8.5%	46.9	228,669	10.9%		
2012	3171	5284	8.4%	48.2	254,844	11.4%		
2013	3439	5727	8.4%	49.6	284,329	11.6%		
PREVIOUS BASELINE (2002)								
2002	1285	2149	-	40.4	86,893	-	Cumulative Rx Spending (\$billions)	
2003	1459	2439	13.5%	40.9	99,663	14.7%	2003-2012	1,773
2004	1641	2744	12.5%	41.3	113,421	13.8%	2004-2012	1,673
2005	1830	3059	11.5%	41.9	128,063	12.9%	2005-2012	1,559
2006	2023	3380	10.5%	42.4	143,491	12.0%		
2007	2222	3712	9.8%	43.2	160,200	11.6%		
2008	2438	4071	9.7%	44.0	179,102	11.8%		
2009	2670	4458	9.5%	44.8	199,703	11.5%		
2010	2920	4874	9.3%	45.6	222,484	11.4%		
2011	3191	5324	9.2%	46.6	248,132	11.5%		
2012	3486	5816	9.2%	47.8	278,311	12.2%		
RATIO OF NEW TO OLD BASELINE								
2003		0.950	Changes to baseline:					
2004		0.944	Drug spending calibrated to 2000 MCBS spending levels					
2005		0.939	Lower correction for underreporting: 17.5% for spending (1.21=1/.825).					
2006		0.936	New projected growth rates					
2007		0.935						
2008		0.934						
2009		0.932						
2010		0.927						
2011		0.922						
2012		0.916						

SOURCE: Congressional Budget Office (March 2003 baseline projections).

NOTES: Mean spending is drug spending per full-year-equivalent Medicare enrollee, excluding drugs now covered by Medicare. Medicare enrollment is a full-year equivalent count of those in HI and/or SMI. Mean spending shown here for the 2003 baseline is calibrated to the amount reported in the MCBS for 2000, adjusted for underreporting by community respondents and for non-response by nursing home residents, then projected forward. The adjustment factor for underreporting by community respondents was 1.21 (=1/(1-.175)). Imputation for drug spending by nursing home residents increased overall per-capita spending amounts by about 5 percent.

TABLE 2-A. PERCENT DISTRIBUTION OF ENROLLEES AND DOLLARS BY AMOUNT SPENT ON OUTPATIENT PRESCRIPTION DRUGS

For FFS Enrollees with Annual Spending:															
Year	=0	>0	>500	>1000	>2000	>3000	>4000	>5000	>6000	>7000	>8000	>9000	>10000	>11000	>12000
Percent Distribution of Medicare FFS Enrollees															
2003	10.3%	89.7%	71.4%	58.3%	38.4%	24.8%	15.8%	10.2%	7.0%	5.1%	3.9%	2.8%	2.0%	1.6%	1.1%
2004	10.3%	89.7%	73.0%	60.9%	42.4%	28.3%	18.8%	12.7%	9.0%	6.5%	4.8%	3.8%	2.8%	2.1%	1.7%
2005	10.3%	89.7%	74.4%	63.0%	45.7%	31.5%	22.4%	15.5%	11.0%	8.0%	5.9%	4.6%	3.7%	2.9%	2.2%
2006	10.3%	89.7%	75.4%	64.8%	48.1%	34.8%	25.5%	18.2%	13.2%	9.9%	7.3%	5.8%	4.5%	3.8%	3.0%
2007	10.3%	89.7%	76.4%	66.7%	51.0%	38.2%	28.4%	21.2%	15.7%	11.7%	9.1%	7.0%	5.6%	4.5%	3.8%
2008	10.3%	89.7%	77.1%	68.2%	53.4%	41.4%	31.2%	24.1%	18.2%	13.9%	10.8%	8.6%	6.7%	5.5%	4.5%
2009	10.3%	89.7%	77.9%	69.4%	55.5%	44.4%	34.2%	26.9%	21.0%	16.4%	12.7%	10.1%	8.2%	6.6%	5.5%
2010	10.3%	89.7%	79.0%	70.8%	57.7%	47.0%	37.4%	29.5%	23.8%	18.6%	14.9%	12.0%	9.8%	8.0%	6.5%
2011	10.3%	89.7%	79.7%	72.1%	59.5%	49.1%	40.3%	32.3%	26.3%	21.5%	17.2%	13.9%	11.5%	9.5%	7.9%
2012	10.3%	89.7%	80.3%	73.3%	61.4%	51.4%	43.0%	35.0%	24.0%	24.0%	19.5%	16.2%	13.3%	11.1%	9.5%
2013	10.3%	89.7%	81.0%	74.4%	63.0%	53.5%	45.6%	37.9%	31.4%	26.5%	22.4%	18.3%	15.5%	12.9%	11.0%
Percent Distribution of Prescription Drug Spending for FFS Enrollees															
2003	0.0%	100.0%	98.1%	93.8%	80.3%	65.2%	51.0%	39.7%	31.7%	26.0%	21.9%	17.6%	14.5%	12.3%	10.0%
2004	0.0%	100.0%	98.5%	94.8%	83.7%	69.7%	56.2%	45.1%	36.9%	30.1%	25.1%	21.5%	17.8%	14.6%	12.9%
2005	0.0%	100.0%	98.7%	95.7%	86.3%	73.4%	61.8%	50.4%	41.4%	34.2%	28.6%	24.6%	21.3%	18.3%	15.2%
2006	0.0%	100.0%	98.9%	96.3%	88.0%	76.9%	66.1%	55.2%	46.1%	38.9%	32.6%	28.1%	24.1%	21.5%	18.5%
2007	0.0%	100.0%	99.1%	96.9%	89.8%	80.1%	69.8%	59.9%	50.8%	43.0%	37.1%	31.6%	27.6%	24.1%	21.7%
2008	0.0%	100.0%	99.2%	97.3%	91.2%	82.9%	73.1%	64.3%	55.2%	47.4%	41.0%	35.7%	30.7%	27.4%	24.1%
2009	0.0%	100.0%	99.3%	97.7%	92.4%	85.3%	76.2%	68.0%	59.7%	52.0%	45.0%	39.5%	34.7%	30.4%	27.4%
2010	0.0%	100.0%	99.4%	98.0%	93.4%	87.2%	79.4%	71.2%	63.7%	55.9%	49.3%	43.5%	38.8%	34.2%	30.3%
2011	0.0%	100.0%	99.5%	98.3%	94.2%	88.6%	82.0%	74.3%	67.2%	60.5%	53.5%	47.5%	42.5%	38.1%	34.0%
2012	0.0%	100.0%	99.6%	98.5%	95.0%	90.1%	84.2%	77.1%	70.4%	64.1%	57.4%	51.7%	46.3%	41.8%	37.9%
2013	0.0%	100.0%	99.6%	98.7%	95.7%	91.3%	86.2%	79.9%	73.3%	67.4%	61.7%	55.4%	50.4%	45.5%	41.4%
Average Amount Spent on Prescription Drugs for FFS Enrollees (FFS \$ / FFS count)															
2003	0	2,453	3,025	3,536	4,606	5,781	7,110	8,551	9,959	11,276	12,489	14,083	15,766	17,238	19,463
2004	0	2,734	3,309	3,819	4,847	6,044	7,334	8,696	10,015	11,459	12,848	14,042	15,574	17,411	18,709
2005	0	3,029	3,608	4,127	5,133	6,336	7,489	8,858	10,249	11,672	13,114	14,381	15,614	16,987	18,850
2006	0	3,338	3,930	4,449	5,476	6,612	7,763	9,088	10,449	11,804	13,290	14,608	16,028	17,139	18,593
2007	0	3,662	4,260	4,770	5,789	6,889	8,078	9,299	10,651	12,054	13,376	14,872	16,199	17,587	18,668
2008	0	4,007	4,622	5,131	6,142	7,199	8,417	9,569	10,907	12,277	13,635	14,994	16,560	17,787	19,211
2009	0	4,370	4,994	5,516	6,522	7,538	8,748	9,897	11,134	12,465	13,914	15,269	16,652	18,172	19,407
2010	0	4,754	5,366	5,902	6,907	7,919	9,052	10,273	11,439	12,798	14,130	15,518	16,824	18,299	19,795
2011	0	5,159	5,778	6,307	7,332	8,358	9,415	10,635	11,820	12,995	14,399	15,788	17,115	18,484	19,923
2012	0	5,592	6,218	6,740	7,762	8,791	9,825	11,037	12,219	13,385	14,730	16,015	17,427	18,789	20,100
2013	0	6,062	6,687	7,219	8,254	9,275	10,276	11,452	12,681	13,838	14,999	16,435	17,704	19,139	20,501

SOURCE: Congressional Budget Office (March 2003 baseline projections).

NOTES: This table shows enrollment and drug spending only for those in Medicare's fee-for-service sector.
The enrollment measure used here is a count of those enrolled in HI &/or SMI at any time during the year (not a full-year equivalent count).

TABLE 2-B. PERCENT DISTRIBUTION OF ENROLLEES AND DOLLARS BY AMOUNT SPENT ON OUTPATIENT PRESCRIPTION DRUGS

For FFS Enrollees with Annual Spending Equal to:															
Year	0	1-500	500-1K	1K-2K	2K-3K	3K-4K	4K-5K	5K-6K	6K-7K	7K-8K	8K-9K	9K-10K	10K-11K	11K-12K	12K+
Percent Distribution of Medicare FFS Enrollees															
2003	10.3%	18.3%	13.0%	20.0%	13.5%	9.0%	5.6%	3.2%	1.9%	1.2%	1.1%	0.7%	0.4%	0.4%	1.1%
2004	10.3%	16.7%	12.1%	18.5%	14.1%	9.5%	6.1%	3.7%	2.6%	1.7%	1.0%	1.0%	0.7%	0.4%	1.7%
2005	10.3%	15.4%	11.4%	17.3%	14.2%	9.0%	7.0%	4.5%	3.0%	2.0%	1.3%	0.9%	0.8%	0.7%	2.2%
2006	10.3%	14.3%	10.6%	16.7%	13.3%	9.3%	7.3%	5.0%	3.3%	2.5%	1.6%	1.3%	0.8%	0.8%	3.0%
2007	10.3%	13.3%	9.7%	15.8%	12.8%	9.8%	7.2%	5.5%	3.9%	2.6%	2.1%	1.4%	1.1%	0.7%	3.8%
2008	10.3%	12.6%	9.0%	14.8%	12.0%	10.2%	7.1%	6.0%	4.3%	3.1%	2.3%	1.9%	1.1%	1.0%	4.5%
2009	10.3%	11.8%	8.5%	13.9%	11.2%	10.2%	7.2%	5.9%	4.7%	3.7%	2.5%	2.0%	1.6%	1.0%	5.5%
2010	10.3%	10.7%	8.2%	13.1%	10.7%	9.6%	7.9%	5.8%	5.1%	3.7%	2.9%	2.1%	1.9%	1.4%	6.5%
2011	10.3%	10.0%	7.6%	12.6%	10.4%	8.8%	8.0%	6.0%	4.8%	4.4%	3.3%	2.4%	2.0%	1.6%	7.9%
2012	10.3%	9.4%	7.0%	11.9%	10.0%	8.4%	8.0%	6.1%	4.9%	4.5%	3.3%	2.9%	2.2%	1.7%	9.5%
2013	10.3%	8.7%	6.6%	11.4%	9.5%	7.9%	7.7%	6.5%	5.0%	4.1%	4.0%	2.8%	2.6%	2.0%	11.0%
Percent Distribution of Prescription Drug Spending for FFS Enrollees															
2003	0.0%	1.9%	4.4%	13.5%	15.1%	14.2%	11.3%	8.1%	5.7%	4.1%	4.3%	3.2%	2.1%	2.3%	10.0%
2004	0.0%	1.5%	3.6%	11.1%	14.1%	13.5%	11.1%	8.2%	6.8%	5.1%	3.5%	3.7%	3.2%	1.7%	12.9%
2005	0.0%	1.3%	3.1%	9.3%	12.9%	11.5%	11.4%	9.0%	7.2%	5.6%	4.0%	3.3%	3.0%	3.1%	15.2%
2006	0.0%	1.1%	2.6%	8.3%	11.1%	10.8%	11.0%	9.1%	7.2%	6.3%	4.4%	4.0%	2.7%	3.0%	18.5%
2007	0.0%	0.9%	2.2%	7.1%	9.7%	10.3%	9.9%	9.2%	7.7%	6.0%	5.5%	4.0%	3.5%	2.4%	21.7%
2008	0.0%	0.8%	1.9%	6.1%	8.3%	9.9%	8.8%	9.1%	7.8%	6.4%	5.3%	5.0%	3.3%	3.3%	24.1%
2009	0.0%	0.7%	1.6%	5.3%	7.1%	9.1%	8.2%	8.3%	7.7%	7.0%	5.5%	4.8%	4.3%	3.0%	27.4%
2010	0.0%	0.6%	1.5%	4.5%	6.2%	7.8%	8.2%	7.5%	7.8%	6.6%	5.8%	4.7%	4.6%	3.9%	30.3%
2011	0.0%	0.5%	1.2%	4.0%	5.6%	6.6%	7.7%	7.1%	6.7%	7.0%	6.0%	4.9%	4.4%	4.1%	34.0%
2012	0.0%	0.4%	1.0%	3.5%	5.0%	5.8%	7.1%	6.7%	6.3%	6.7%	5.6%	5.4%	4.6%	3.9%	37.9%
2013	0.0%	0.4%	0.9%	3.1%	4.4%	5.1%	6.4%	6.6%	5.9%	5.7%	6.3%	5.0%	4.9%	4.1%	41.4%

SOURCE: Congressional Budget Office (March 2003 baseline projections).

NOTES: This table shows enrollment and drug spending only for those in Medicare's fee-for-service sector. The enrollment measure used here is a count of those enrolled in HI &/or SMI at any time during the year (not a full-year equivalent count).