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Comparison of Projected Medicare Part D Premiums Under Current Law and Under Reconciliation Legislation Combined with H.R. 3590 as Passed by the Senate
(based on draft legislative language and modifications discussed with staff)

We have received inquiries regarding the change in Medicare Part D premiums that would result from certain provisions contained in the amendment in the nature of a substitute to H.R. 4872, the Reconciliation Act of 2010.

The Patient Protection and Affordable Care Act (PPACA) introduced a manufacturer discount program in Medicare Part D for brand-name drugs purchased in the coverage gap, often referred to as the "doughnut hole." CBO assumes this policy would increase the number of Part D beneficiaries receiving catastrophic coverage, since prescription drugs would be more affordable to the beneficiary, causing Part D spending to increase overall. As a result of these changes, we estimate that Part D premiums would increase by about 3 percent starting in 2011. Compared to our baseline assumptions, the Part D premium would be about 3 percent higher through 2019.

The reconciliation bill would make additional changes to the structure of the Part D benefit. In addition to the discount program provided by manufacturers, Section 1101 would require that Part D plans cover more prescription drug costs for non-low income subsidy individuals in the doughnut hole over time. This policy change further increases Part D spending, compared to PPACA, because the benefit is more generous. Beneficiaries and the federal government share in program costs, which leads to an increase in premiums. According to CBO's preliminary estimate, enacting those changes would lead to an average increase in premiums for Part D beneficiaries of about 4 percent in 2011, rising to about 9 percent in 2019. This estimate is based on draft legislative language with clarifications from staff.

The incremental difference in premiums between PPACA and reconciliation of 1 percent in 2011 and 6 percent in 2019 can largely be attributed to the policy of closing the doughnut hole.

However, it is important to note that beneficiaries' out-of-pocket spending on prescription drugs apart from those premiums would fall, on average, as would their overall out-of-pocket drug spending including premiums in both scenarios – PPACA and PPACA including changes included in the reconciliation language.

For additional information regarding how CBO has estimated provisions related to Medicare Part D, please see CBO's letter to Congressman Camp, issued on August 28, 2009 (http://www.cbo.gov/ftpdocs/105xx/doc10543/08-28-MedicarePartD.pdf).