CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

March 19, 2010

Honorable Paul Ryan
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Congressman:

This letter responds to several questions you have asked about the effects of an amendment in the nature of a substitute to H.R. 4872, the Reconciliation Act of 2010, which was made public on March 18, 2010. That amendment (hereafter called "the reconciliation proposal") represents one component of the health care legislation being considered by the Congress; the other component is a bill, H.R. 3590, that the Senate passed in December. The analysis provided in this letter is based on the preliminary estimate of the direct spending and revenue effects of that amendment that was prepared by the Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT).[1]

The Combined Budgetary Impact of Enacting the Reconciliation Proposal, H.R. 3590, and H.R. 3961

You asked about the total budgetary impact of enacting the reconciliation proposal (the amendment to H.R. 4872), the Senate-passed health bill (H.R. 3590), and the Medicare Physicians Payment Reform Act of 2009 (H.R. 3961). CBO estimates that enacting all three pieces of legislation would add $59 billion to budget deficits over the 2010–2019 period.

Under current law, Medicare's payment rates for physicians' services will be reduced by about 21 percent in April 2010 and by an average of about 2 percent per year for the rest of the decade.[2] H.R. 3961 would increase those payment rates

[1] See Congressional Budget Office, letter to the Honorable Nancy Pelosi about a preliminary analysis by CBO and JCT of the direct spending and revenue effects of the reconciliation proposal (March 18, 2010).

[2] The payment rates shown here reflect the March 2009 baseline, updated for a final rule regarding payments to physicians that was promulgated by the Centers for Medicare and Medicaid Services

by 1.2 percent in 2010 and would restructure the sustainable growth rate mechanism beginning in 2011. Those changes would result in significantly higher payment rates for physicians than those that would result under current law. CBO estimates that enacting H.R. 3961, by itself, would cost about $208 billion over the 2010–2019 period. (That estimate reflects the enactment of two short-term extension acts, which lowered the cost in 2010 by about $2 billion compared with CBO's estimate of November 4, 2009.)[3]

H.R. 3590, the Patient Protection and Affordable Care Act, as passed by the U.S. Senate on December 24, 2009, would establish a mandate for most residents of the United States to obtain health insurance, set up insurance "exchanges" through which certain individuals could receive federal subsidies to reduce the cost of purchasing that coverage, and make numerous other changes in the health insurance system, in federal health care programs, and in the federal tax code. The reconciliation proposal would modify the Senate-passed health bill in several ways (including changing federal programs involving postsecondary education). CBO and JCT estimate that enacting both the reconciliation proposal and H.R. 3590, as passed by the Senate, would reduce budget deficits by $138 billion over the 2010–2019 period through their effects on direct spending and revenues (including the savings achieved through the education provisions).

CBO estimates that enacting H.R. 3961 together with those two bills would add $59 billion to budget deficits over the 2010–2019 period. That amount is about $10 billion less than the figure that would result from summing the effects of enacting the bills separately. The $10 billion difference occurs primarily because H.R. 3590 and the reconciliation proposal would modify how the government's payments to Medicare Advantage plans are set. The higher payment rates for physicians that would stem from the enactment of H.R. 3961 would, under current law, result in higher payments to those plans. But the changes made by the other bills would moderate that increase.

The Budgetary Impact of Enacting the Reconciliation Proposal and H.R. 3590 with Some Provisions Altered

You also asked about the effects on the federal budget beyond the 2010–2019 period of enacting the reconciliation proposal (the amendment to H.R. 4872) and the Senate-passed health bill (H.R. 3590) if several provisions were altered, either now or at some point in the future. In particular, you asked about the effects if:

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on October 30, 2009; CBO's estimate of the cost of this legislation was constructed relative to that scoring base. Additionally, payment rates were scheduled to be reduced by 21 percent in January 2010, but the Congress enacted short-term extensions that delayed the reduction.

[3] See Congressional Budget Office, cost estimate for H.R. 3961, the Medicare Physician Payment Reform Act of 2009 (November 4, 2009), available at http://www.cbo.gov/ftpdocs/107xx/doc10704/hr3961.pdf.

- the excise tax on insurance plans with relatively high premiums—which would take effect in 2018 and for which the thresholds would be indexed at a lower rate beginning in 2020—was never implemented;

- the annual indexing provisions for premium subsidies offered through the insurance exchanges continued in the same way after 2018 as before—in contrast with the arrangements under the reconciliation proposal, which would slow the growth of subsidies after 2019;

- the adjustment to payment rates for physicians under Medicare contained in H.R. 3961 and described above was included; and

- the Independent Payment Advisory Board—which would be required, under certain circumstances, to recommend changes to the Medicare program to limit the rate of growth in that program's spending, and whose recommendations would go into effect automatically unless blocked by subsequent legislative action—was never implemented.

A detailed year-by-year projection, like those that CBO prepares for the 10-year budget window, would not be meaningful over a longer horizon because the uncertainties involved are simply too great. Among other factors, a wide range of changes could occur—in people's health, in the sources and extent of their insurance coverage, and in the delivery of medical care (such as advances in medical research, technological developments, and changes in physicians' practice patterns) —that are likely to be significant but are very difficult to predict, both under current law and under any proposal.

CBO has therefore developed a rough outlook for the decade following the 10-year budget window. Under the analytic approach described in the agency's previous letters, the combined effect of enacting H.R. 3590 and the reconciliation proposal would be to reduce federal budget deficits over the decade beyond 2019 relative to those projected under current law—with a total effect during that decade in a broad range around one-half percent of gross domestic product (GDP). If the changes described above were made to the legislation, CBO would expect that federal budget deficits during the decade beyond 2019 would *increase* relative to those projected under current law—with a total effect during that decade in a broad range around one-quarter percent of GDP.

The Budgetary Impact of Enacting the Reconciliation Proposal and H.R. 3590 Excluding Cash Flows of the Hospital Insurance Trust Fund

You further asked about the budgetary impact of enacting the reconciliation proposal (the amendment to H.R. 4872) and the Senate-passed health bill (H.R. 3590) excluding the cash flows of the Hospital Insurance (HI) trust fund, from which Medicare Part A benefits are paid.

On the basis of the economic forecast and technical assumptions underlying CBO's March 2009 baseline, CBO projected that, under current law, the HI trust fund would be exhausted—that is, the balance of the trust fund would decline to zero—during fiscal year 2017. Enacting the reconciliation proposal and the Senate-passed health bill would reduce net outlays for Part A of Medicare by $286 billion over the 2010–2019 period relative to that baseline, CBO estimates. Enacting that legislation would also increase HI payroll tax receipts by about $112 billion over that period, according to estimates by CBO and JCT. Together, those changes in outlays and revenues would diminish budget deficits and add $398 billion plus interest earnings to the trust fund's balances over that 10-year period. Given those changes in the financial flows of the trust fund, CBO estimates that the HI trust fund would have a positive balance of about $219 billion at the end of fiscal year 2019.

In the March 18, 2010, preliminary analysis of the budgetary effects of the reconciliation proposal, CBO and JCT estimated that the direct spending and revenue effects of enacting that proposal together with the Senate-passed health bill (H.R. 3590) would yield a net reduction in federal deficits of $138 billion over the 2010–2019 period. Thus, the legislation's effects on the rest of the budget—other than the cash flows of the HI trust fund—would amount to a net *increase* in federal deficits of $260 billion over the same period.

For the decade beyond 2019, CBO expects that enacting the reconciliation proposal and the Senate-passed health bill would reduce federal budget deficits relative to those projected under current law—with a total effect during that decade in a broad range around one-half percent of GDP. The legislation would have positive effects on the cash flows of the HI trust fund in that decade that would be larger than its effects on federal budget deficits as a whole. Therefore, leaving aside the cash flows of the HI trust fund, CBO expects that the reconciliation proposal and the Senate-passed health bill would yield a net *increase* in budget deficits during the decade beyond 2019.

The increase in the balances of the HI trust fund that would result from enacting H.R. 3590 and the reconciliation proposal might suggest that significant additional resources—$398 billion plus additional interest to be credited to the trust fund over time—had been set aside to pay for future Medicare benefits. However, only the additional savings by the government as a whole truly increase the government's ability to pay for future Medicare benefits or other programs, and those would be much smaller ($138 billion plus interest savings to be achieved over time). In effect, the majority of the HI trust fund savings under H.R. 3590 and the reconciliation proposal would be used to pay for other spending and therefore would not enhance the ability of the government to pay for future Medicare benefits.

I hope this information is useful to you. If you wish further details, CBO would be happy to provide them. The staff contacts for these estimates are Phil Ellis, Lori Housman, and Tom Bradley.

Sincerely,

Douglas W. Elmendorf

Douglas W. Elmendorf
Director

cc: Honorable John M. Spratt Jr.
Chairman

Honorable Nancy Pelosi
Speaker

Honorable John Boehner
Republican Leader