# CBO's August 2010 Baseline: Medicare

| *By fiscal year* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **MEDICARE TOTALS (in billions of dollars):** | | | | | | | | | | | | |
| Mandatory Outlays [1] | 499.2 | 518.5 | 560.2 | 562.8 | 611.0 | 644.8 | 676.9 | 733.4 | 763.5 | 796.8 | 869.3 | 929.1 |
| Discretionary Outlays | 5.0 | 5.6 | 5.9 | 6.1 | 6.5 | 6.8 | 7.2 | 7.5 | 8.0 | 8.4 | 8.8 | 9.3 |
| Total Outlays | 504.2 | 524.1 | 566.1 | 568.9 | 617.4 | 651.6 | 684.1 | 740.9 | 771.4 | 805.2 | 878.1 | 938.4 |
| Total Offsetting Receipts [2] | -73.9 | -71.3 | -77.5 | -83.9 | -89.4 | -94.8 | -100.2 | -107.0 | -113.5 | -121.5 | -131.5 | -140.6 |
| Net Outlays (Total Outlays - Receipts) | 430.3 | 452.8 | 488.5 | 485.0 | 528.0 | 556.8 | 583.9 | 633.9 | 657.9 | 683.7 | 746.6 | 797.7 |
| Net Mandatory Outlays (Mandatory Outlays - Receipts) [3] | 425.3 | 447.2 | 482.7 | 478.8 | 521.6 | 550.0 | 576.8 | 626.4 | 650.0 | 675.3 | 737.8 | 788.4 |
| **COMPONENTS OF MANDATORY OUTLAYS (in billions of dollars):** | | | | | | | | | | | | |
| Benefits | | | | | | | | | | | | |
| Part A | 239.8 | 250.3 | 267.3 | 270.9 | 286.0 | 298.7 | 307.1 | 325.1 | 336.5 | 350.7 | 372.8 | 391.5 |
| Part B | 204.2 | 207.6 | 219.1 | 220.7 | 239.5 | 251.6 | 265.0 | 282.9 | 296.4 | 311.7 | 334.8 | 358.6 |
| Part D | 53.0 | 58.2 | 71.4 | 69.1 | 83.5 | 92.5 | 102.6 | 123.3 | 128.5 | 132.3 | 159.7 | 176.9 |
| Total Benefits | 497.0 | 516.2 | 557.8 | 560.7 | 609.0 | 642.8 | 674.8 | 731.3 | 761.5 | 794.7 | 867.3 | 927.0 |
| Mandatory Administration [4] | 2.1 | 2.3 | 2.4 | 2.1 | 2.0 | 2.0 | 2.2 | 2.1 | 2.0 | 2.1 | 2.0 | 2.1 |
| Total Mandatory Outlays | 499.1 | 518.5 | 560.2 | 562.8 | 611.0 | 644.8 | 677.0 | 733.4 | 763.5 | 796.8 | 869.3 | 929.1 |
| **Annual Growth Rates:** | | | | | | | | | | | | |
| Mandatory Outlays | | 3.9% | 8.0% | 0.5% | 8.6% | 5.5% | 5.0% | 8.3% | 4.1% | 4.4% | 9.1% | 6.9% |
| Discretionary Outlays | | 12.2% | 5.0% | 4.5% | 5.0% | 5.2% | 5.3% | 5.5% | 5.5% | 5.3% | 5.4% | 5.3% |
| Total Outlays | | 4.0% | 8.0% | 0.5% | 8.5% | 5.5% | 5.0% | 8.3% | 4.1% | 4.4% | 9.1% | 6.9% |
| Total Offsetting Receipts | | -3.5% | 8.7% | 8.2% | 6.5% | 6.0% | 5.7% | 6.8% | 6.1% | 7.0% | 8.3% | 7.0% |
| Net Outlays (Total Outlays - Receipts) | | 5.2% | 7.9% | -0.7% | 8.9% | 5.5% | 4.9% | 8.6% | 3.8% | 3.9% | 9.2% | 6.8% |
| Net Mandatory Outlays (Mandatory Outlays - Receipts) | | 5.1% | 7.9% | -0.8% | 8.9% | 5.5% | 4.9% | 8.6% | 3.8% | 3.9% | 9.3% | 6.9% |
| **Memorandum:** | | | | | | | | | | | | |
| Number of Capitation Payments [5] | 12 | 12 | 13 | 11 | 12 | 12 | 12 | 13 | 12 | 11 | 12 | 12 |
| Mandatory Benefits, net of recoveries, adjusted for timing shifts [6] | 487.4 | 509.1 | 535.8 | 567.4 | 600.6 | 633.8 | 665.0 | 704.7 | 748.8 | 800.5 | 854.8 | 913.8 |
| Annual growth rate: | | 4.4% | 5.2% | 5.9% | 5.8% | 5.5% | 4.9% | 6.0% | 6.3% | 6.9% | 6.8% | 6.9% |

**Notes:**

1. Average annual rate of growth of mandatory outlays from 2010 through 2020 is 6.0 percent.
2. Offsetting receipts include premiums, amounts paid to providers and later recovered, and phased-down state contribution (clawback) payments from the states to Part D.
3. Average annual rate of growth of net mandatory outlays from 2010 through 2020 is 5.8 percent.
4. Mandatory outlays for administration support quality improvement organizations, certain activities against fraud and abuse, and certain administrative activities funded in authorization acts. Mandatory outlays also include payment of Part B premiums for qualifying individuals through 2010.
5. Capitation payments to group health plans and prescription drug plans for the month of October are accelerated into the preceding fiscal year when October 1st falls on a weekend.
6. Amounts that are paid to providers and later recovered are included in the total for mandatory Medicare spending, but the amounts are not broken out by type of provider. CBO counts the initial payment of such amounts as outlays for benefits and the subsequent recovery as offsetting receipts to conform to the reporting in the Monthly Treasury Statement. In the past, the Medicare Trustees have reported benefits net of recoveries, so they have not treated the recoveries as offsetting receipts.

# CBO's August 2010 Baseline: Medicare

| *By fiscal year* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **COMPONENTS OF BENEFITS PAYMENTS (in billions of dollars):** | | | | | | | | | | | | |
| Hospital Inpatient Care | 132.6 | 139.3 | 149.5 | 160.2 | 169.2 | 180.5 | 189.0 | 200.9 | 211.1 | 222.5 | 232.8 | 242.1 |
| Skilled Nursing Facilities | 25.8 | 26.2 | 28.4 | 30.4 | 32.7 | 35.4 | 38.6 | 41.7 | 44.6 | 47.3 | 50.1 | 53.1 |
| Physician Fee Schedule | 62.5 | 67.3 | 65.8 | 66.3 | 70.3 | 75.3 | 81.2 | 86.4 | 91.7 | 97.8 | 104.0 | 110.9 |
| Hospital Outpatient Services | 26.5 | 31.1 | 33.1 | 35.7 | 39.2 | 43.0 | 47.6 | 52.3 | 56.7 | 60.9 | 65.1 | 70.5 |
| Group Plans (includes Medicare Advantage) | 109.0 | 116.2 | 122.4 | 101.5 | 105.9 | 99.7 | 89.3 | 91.6 | 84.0 | 79.7 | 93.6 | 100.9 |
| Home Health Agencies | 18.3 | 19.6 | 21.1 | 23.1 | 25.3 | 27.9 | 30.8 | 33.4 | 36.7 | 40.4 | 44.1 | 48.0 |
| Part D Benefits (prescription drugs) [1] | 53.0 | 58.2 | 71.4 | 69.1 | 83.5 | 92.5 | 102.6 | 123.3 | 128.5 | 132.3 | 159.7 | 176.9 |
| Other Services [2] | 59.7 | 63.0 | 66.6 | 70.5 | 74.5 | 79.3 | 85.4 | 91.7 | 98.1 | 104.3 | 110.2 | 116.4 |
| Not Allocated to Specific Services | 0.0 | -11.9 | -8.0 | -4.0 | 0.0 | 0.0 | 0.4 | -0.3 | -1.1 | -2.4 | -4.8 | -5.1 |
| **Subtotal, Medicare Benefits, Net of Recoveries** | **487.4** | **509.1** | **550.4** | **552.8** | **600.6** | **633.8** | **665.0** | **720.8** | **750.3** | **782.9** | **854.8** | **913.8** |
| Amounts Paid to Providers and Recovered [3] | 9.5 | 7.1 | 7.4 | 7.9 | 8.4 | 9.0 | 9.7 | 10.4 | 11.1 | 11.8 | 12.5 | 13.2 |
| **Total, Mandatory Medicare Benefit Outlays** | **497.0** | **516.2** | **557.8** | **560.7** | **609.0** | **642.8** | **674.8** | **731.3** | **761.5** | **794.7** | **867.3** | **927.0** |
| **Memorandum:** | | | | | | | | | | | | |
| Not Allocated to Specific Services | | | | | | | | | | | | |
| Adjustments to reflect year-to-date spending in 2010 | 0.0 | -11.9 | -8.0 | -4.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Independent Payment Advisory Board (IPAB) [4] | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.4 | -1.1 | -2.4 | -4.8 | -5.1 |
| Medicare Improvement Fund (MIF) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |

| **ANNUAL GROWTH RATES FOR COMPONENTS OF BENEFITS PAYMENTS:** [5] | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Hospital Inpatient Care | | 5.0% | 7.3% | 7.2% | 5.6% | 6.7% | 4.7% | 6.3% | 5.1% | 5.4% | 4.6% | 4.0% |
| Skilled Nursing Facilities | | 1.9% | 8.0% | 7.1% | 7.7% | 8.3% | 9.1% | 7.9% | 6.9% | 6.2% | 5.8% | 6.1% |
| Physician Fee Schedule | | 7.7% | -2.3% | 0.8% | 6.0% | 7.2% | 7.8% | 6.4% | 6.1% | 6.7% | 6.3% | 6.7% |
| Hospital Outpatient Services | | 17.2% | 6.4% | 7.8% | 9.8% | 9.8% | 10.5% | 9.9% | 8.4% | 7.5% | 6.9% | 8.4% |
| Group Plans (includes Medicare Advantage) | | 6.7% | 5.4% | -17.1% | 4.3% | -5.8% | -10.4% | 2.5% | -8.3% | -5.1% | 17.5% | 7.8% |
| Home Health Agencies | | 7.0% | 7.7% | 9.2% | 9.5% | 10.5% | 10.4% | 8.2% | 10.1% | 10.0% | 9.2% | 8.9% |
| Part D Benefits (prescription drugs) [1] | | 10.0% | 22.6% | -3.2% | 20.9% | 10.8% | 10.9% | 20.1% | 4.3% | 2.9% | 20.7% | 10.8% |
| Other Services [2] | | 5.5% | 5.8% | 5.8% | 5.7% | 6.4% | 7.7% | 7.3% | 7.1% | 6.3% | 5.6% | 5.6% |
| **Total, Medicare Benefits Net of Recoveries** [3] | | **4.4%** | **8.1%** | **0.4%** | **8.6%** | **5.5%** | **4.9%** | **8.4%** | **4.1%** | **4.3%** | **9.2%** | **6.9%** |
| **Memorandum:** | | | | | | | | | | | | |
| Medicare Benefits Net of Recoveries, adjusted to remove effect of timing shifts [6] | | | | | | | | | | | | |
| Part A and Part B Fee-for-Service Benefits | | 2.8% | 6.5% | 7.2% | 7.6% | 7.4% | 7.1% | 7.0% | 6.3% | 6.1% | 5.4% | 5.7% |
| Parts A and B - Group Plans (includes Medicare Advantage) | | 6.7% | -2.6% | -2.2% | -4.4% | -5.8% | -10.4% | -5.3% | -1.2% | 4.1% | 7.6% | 7.8% |
| Part D Benefits | | 10.0% | 13.4% | 12.8% | 12.1% | 10.8% | 10.9% | 11.2% | 11.7% | 11.9% | 12.0% | 10.8% |
| Total Medicare Benefits | | 4.4% | 5.2% | 5.9% | 5.8% | 5.5% | 4.9% | 6.0% | 6.3% | 6.9% | 6.8% | 6.9% |

**Notes:**

1. Includes payments to prescription drug plans, retiree drug subsidy, and low-income subsidy.
2. Includes hospice services; durable medical equipment; ambulance services; independent, physician in-office, and hospital outpatient department laboratory services; hospital outpatient services that are not paid for using the prospective payment system (PPS), Part B prescription drugs; rural health clinic services; and outpatient dialysis.
3. See footnote 6 on page 1.
4. Under PPACA (P.L. 111-148) the IPAB is obligated to make changes to the Medicare program that will reduce spending if the rate of growth in spending is projected to exceed a target rate of growth linked to the consumer price index and nominal gross domestic product. The effect of the IPAB shown here differs from estimates provided in CBO's March 20, 2010, cost estimate because the projected rate of growth in spending has changed because of legislative, economic, and technical changes incorporated in the August 2010 baseline. Additionally, the target rate of growth changed because of the updated economic factors used in this baseline.
5. The growth rates are calculated using benefits net of amounts paid to providers and later recovered.
6. The adjustment for timing shifts reflects 12 capitation payments per year.

## CBO's August 2010 Baseline: Medicare

| *By fiscal year* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **COMPARISON OF MEDICARE SPENDING AND DEDICATED FUNDING (in billions of dollars):** | | | | | | | | | | | | |
| Total Medicare Outlays Included in Calculating the Funding Warning [1] | 499.2 | 521.9 | 550.8 | 583.6 | 618.2 | 653.0 | 686.2 | 727.9 | 774.3 | 828.7 | 886.0 | 948.2 |
| Dedicated Medicare Financing Sources [2] | | | | | | | | | | | | |
| Part A (HI) | 207.5 | 204.8 | 212.4 | 226.4 | 251.2 | 272.5 | 290.3 | 307.1 | 323.6 | 340.3 | 357.4 | 375.0 |
| Part B (SMI) | 44.8 | 46.4 | 44.9 | 52.6 | 56.5 | 59.5 | 62.2 | 65.8 | 68.7 | 72.6 | 78.4 | 83.0 |
| Part D (SMI) | 14.3 | 11.3 | 16.5 | 20.3 | 22.7 | 25.2 | 28.0 | 31.4 | 35.4 | 40.0 | 45.3 | 50.7 |
| Subtotal, Dedicated Medicare Financing Sources | 266.6 | 262.5 | 273.8 | 299.3 | 330.4 | 357.2 | 380.5 | 404.3 | 427.7 | 453.0 | 481.1 | 508.6 |
| General Revenue Medicare Funding | 232.6 | 259.4 | 277.0 | 284.3 | 287.8 | 295.8 | 305.7 | 323.6 | 346.5 | 375.7 | 404.9 | 439.5 |
| General Revenue Medicare Funding (percent of total outlays) | 46.6% | 49.7% | 50.3% | 48.7% | 46.6% | 45.3% | 44.6% | 44.5% | 44.8% | 45.3% | 45.7% | 46.4% |
| Excess General Revenue Medicare Funding (in percent) [3] | 1.6% | 4.7% | 5.3% | 3.7% | 1.6% | 0.3% | 0.0% | none | 0.0% | 0.3% | 0.7% | 1.4% |
| **STATUS OF HOSPITAL INSURANCE TRUST FUND (in billions of dollars):** | | | | | | | | | | | | |
| HI Trust Fund Income | | | | | | | | | | | | |
| Receipts (mostly payroll taxes) | 217.6 | 212.2 | 220.5 | 233.7 | 259.0 | 280.7 | 298.9 | 316.3 | 333.2 | 350.2 | 367.8 | 385.9 |
| Interest | 15.9 | 15.8 | 14.5 | 12.7 | 11.5 | 10.7 | 10.2 | 10.2 | 10.1 | 10.1 | 10.4 | 10.5 |
| Total Income | 233.5 | 228.0 | 235.1 | 246.5 | 270.5 | 291.4 | 309.1 | 326.5 | 343.4 | 360.3 | 378.1 | 396.4 |
| HI Trust Fund Outlays | 243.5 | 253.8 | 271.2 | 274.8 | 290.0 | 302.9 | 311.4 | 329.5 | 341.1 | 355.5 | 377.7 | 396.7 |
| HI Trust Fund Surplus (+) or Deficit (-) [4] | -9.1 | -25.7 | -35.6 | -27.7 | -18.9 | -10.9 | -1.7 | -2.4 | 2.9 | 5.4 | 1.1 | 0.3 |
| HI Trust Fund Balance (end of year) | 309.8 | 284.1 | 248.6 | 220.8 | 201.9 | 191.0 | 189.2 | 186.8 | 189.7 | 195.1 | 196.2 | 196.5 |
| **ENROLLMENT: (average monthly enrollment during fiscal year, in millions)** | | | | | | | | | | | | |
| Part A | 45.4 | 46.3 | 47.5 | 49.1 | 50.6 | 52.1 | 53.6 | 55.2 | 56.8 | 58.4 | 60.1 | 61.8 |
| Part B | 42.3 | 43.1 | 44.2 | 45.6 | 46.9 | 48.3 | 49.6 | 51.0 | 52.4 | 53.9 | 55.5 | 57.1 |
| Part D [5] | 33.1 | 34.2 | 35.3 | 36.7 | 38.0 | 39.3 | 40.7 | 42.1 | 43.6 | 45.2 | 46.8 | 48.5 |
| Memo: Part D Low-Income Subsidy | 10.0 | 10.4 | 10.7 | 11.1 | 11.4 | 11.8 | 12.2 | 12.5 | 12.9 | 13.3 | 13.7 | 14.2 |
| Part A Fee-for-Service Enrollment | 34.7 | 35.1 | 36.7 | 38.6 | 40.6 | 42.7 | 45.2 | 47.3 | 49.1 | 50.6 | 52.0 | 53.4 |
| Group Plan Enrollment [6] | 10.7 | 11.2 | 10.8 | 10.5 | 10.0 | 9.4 | 8.5 | 7.9 | 7.7 | 7.8 | 8.1 | 8.5 |
| Memo: Medicare Advantage | 10.4 | 10.9 | 10.5 | 10.2 | 9.7 | 9.1 | 8.2 | 7.6 | 7.4 | 7.5 | 7.9 | 8.2 |
| Share of Medicare Part A Enrollment: | | | | | | | | | | | | |
| Fee-for-service | 76% | 76% | 77% | 79% | 80% | 82% | 84% | 86% | 86% | 87% | 86% | 86% |
| Group plans (including Medicare Advantage) [6] | 24% | 24% | 23% | 21% | 20% | 18% | 16% | 14% | 14% | 13% | 14% | 14% |
| Growth in Part A Enrollment: | | 2.0% | 2.7% | 3.2% | 3.1% | 3.0% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% |
| Fee-for-service | | 1.1% | 4.7% | 5.1% | 5.3% | 5.3% | 5.7% | 4.6% | 3.8% | 3.1% | 2.7% | 2.7% |
| Group plans (including Medicare Advantage) | | 5.2% | -3.6% | -3.0% | -4.7% | -6.3% | -10.0% | -6.4% | -2.8% | 1.3% | 4.3% | 4.4% |

**Notes:**

HI = Hospital Insurance (Part A of Medicare); SMI = Supplementary Medical Insurance (Parts B and D of Medicare).

1. Total Medicare Outlays used to calculate the funding warning differ from "Total Outlays" shown on page 1 because they exclude amounts paid to providers that are later recovered (see footnote 6 on page 1), adjust for differences in numbers of capitated payments each year, and include the basic premiums for Part D that are paid directly to Part D plans by beneficiaries who choose not to have those premiums withheld from their Social Security benefits.
2. Dedicated sources of revenue include Medicare payroll taxes, the Medicare share of taxes on certain Social Security benefits, Part D phased-down state contribution (clawback) payments by states, and beneficiary premiums paid from nonfederal sources. However, dedicated revenues do not include offsetting receipts paid with federal funds or amounts recovered from providers.
3. The Excess General Revenue Medicare Funding Warning is triggered when the general revenue requirement exceeds 45 percent.
4. Surpluses and deficits reflect income minus outlays for each year. Deficits are denoted by negative numbers.
5. Includes individuals enrolled in stand-alone prescription drug plans, Medicare Advantage plans with prescription drug coverage, and the retiree drug subsidy.
6. Includes Medicare Advantage, cost contracts, and demonstration contracts covering Medicare Parts A and B. Does not include Health Care Prepayment Plans (HCPPs), which cover Part B services only.

## CBO's August 2010 Baseline: Medicare

| *By fiscal year* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **OFFSETTING RECEIPTS (in billions of dollars):** | | | | | | | | | | | | |
| Part A Premiums | -2.8 | -3.2 | -3.3 | -3.4 | -3.4 | -3.5 | -3.5 | -3.6 | -3.6 | -3.7 | -3.8 | -3.9 |
| Part B Premiums [1] | -51.9 | -54.7 | -57.0 | -60.3 | -64.0 | -67.4 | -70.8 | -75.1 | -78.8 | -83.6 | -90.3 | -95.9 |
| Part D Premiums [2] | -2.2 | -2.3 | -3.2 | -3.7 | -4.3 | -4.9 | -5.5 | -6.3 | -7.2 | -8.3 | -9.5 | -10.8 |
| Part D Payments by States [3] | -7.5 | -4.0 | -6.7 | -8.7 | -9.3 | -10.0 | -10.7 | -11.6 | -12.7 | -14.0 | -15.4 | -16.9 |
| Amounts Paid to Providers and Recovered [4] | -9.5 | -7.1 | -7.4 | -7.9 | -8.4 | -9.0 | -9.7 | -10.4 | -11.1 | -11.8 | -12.5 | -13.2 |
| **Subtotal, Offsetting Receipts** | **-73.9** | **-71.3** | **-77.5** | **-83.9** | **-89.4** | **-94.8** | **-100.2** | **-107.0** | **-113.5** | **-121.5** | **-131.5** | **-140.6** |
| **Offsetting Receipts Paid With Federal Funds** | | | | | | | | | | | | |
| Federal Share of Medicaid Payments of Part A Premiums | 2.4 | 2.5 | 3.0 | 1.9 | 2.0 | 2.1 | 2.1 | 2.2 | 2.4 | 2.5 | 2.6 | 2.8 |
| Federal Share of Medicaid Payments of Part B Premiums | 7.0 | 8.2 | 12.2 | 7.7 | 7.5 | 8.0 | 8.6 | 9.3 | 10.1 | 10.9 | 11.8 | 12.9 |
| **Subtotal, Offsetting Receipts Paid With Federal Funds** | **9.4** | **10.7** | **15.1** | **9.6** | **9.5** | **10.0** | **10.7** | **11.5** | **12.5** | **13.4** | **14.5** | **15.6** |
| **Net Offsetting Receipts from Nonfederal Sources** | **-64.5** | **-60.6** | **-62.4** | **-74.3** | **-79.9** | **-84.7** | **-89.5** | **-95.4** | **-101.0** | **-108.0** | **-117.0** | **-125.0** |
| **COMPONENTS OF HOSPITAL INPATIENT PAYMENTS (in billions of dollars):** | | | | | | | | | | | | |
| Inpatient Operating and Capital-related Payments | 111.2 | 117.1 | 126.1 | 135.5 | 143.2 | 152.8 | 163.2 | 173.6 | 182.9 | 192.3 | 201.7 | 209.4 |
| Disproportionate Share [5] | 10.4 | 10.8 | 11.5 | 12.2 | 12.9 | 13.8 | 10.9 | 11.5 | 11.6 | 12.8 | 13.0 | 13.7 |
| Indirect Medical Education [5, 6] | 6.2 | 6.3 | 6.7 | 7.1 | 7.5 | 8.1 | 8.7 | 9.4 | 9.9 | 10.5 | 11.0 | 11.5 |
| Graduate Medical Education [6] | 3.1 | 3.2 | 3.2 | 3.3 | 3.4 | 3.5 | 3.6 | 3.7 | 3.8 | 3.8 | 3.9 | 4.0 |
| Other, including bad debt | 1.8 | 1.9 | 2.0 | 2.1 | 2.2 | 2.4 | 2.6 | 2.8 | 2.9 | 3.1 | 3.2 | 3.4 |
| **PAYMENT UPDATES AND CHANGES IN PRICE INDEXES:** | | | | | | | | | | | | |
| Part A: (fiscal year) | | | | | | | | | | | | |
| PPS Market Basket Increase | 3.6% | 2.1% | 2.6% | 2.1% | 2.4% | 2.7% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% |
| PPS Update Factor [7] | 3.6% | 1.9% | 2.4% | 0.7% | 1.0% | 1.3% | 1.7% | 1.7% | 1.1% | 1.1% | 1.0% | 1.7% |
| Part B: (calendar year) | | | | | | | | | | | | |
| Physician Medicare Economic Index (MEI) | 1.6% | 1.2% | 0.3% | 0.3% | 0.5% | 1.1% | 1.9% | 2.3% | 2.8% | 2.5% | 2.4% | 2.2% |
| CPI-U | 5.0% | 0.0% | 0.8% | 1.1% | 1.4% | 1.7% | 1.9% | 2.2% | 2.3% | 2.3% | 2.3% | 2.3% |

**Notes:**

CPI-U = consumer price index for urban consumers; PPS = prospective payment system.

1. Part B premium receipts include the income-related premium.
2. Does not include premiums that enrollees pay directly to their plans or premiums covered by the low-income subsidy.
3. Reflects a March 2010 decision by the Department of Health and Human Services that reduces the phased-down state contributions that are used to offset some of the federal government's spending for Part D.
4. The Monthly Treasury Statement classifies the recovery of amounts paid to providers as offsetting receipts. CBO has adopted that classification. (Also see footnote 6 on page 1.)
5. Included in inpatient operating and capital-related payments.
6. Includes subsidies for medical education that are paid to hospitals that treat patients enrolled in Medicare Advantage plans.
7. The PPS update factor fiscal year 2010 applies to discharges occuring on or after April 1, 2010.

# FAQs for the August 2010 Update of CBO's Medicare Baseline

**What is the August Baseline?** The August baseline for Medicare updates CBO's projections under current law of spending over the 2010-2020 period. CBO's prior baseline for that period was published in March of 2010. The update incorporates the effects of CBO's most recent economic forecast, legislation enacted since the completion of the prior baseline, certain actions implemented or announced by the Administration, and data on Medicare spending through late-July.

**Which new laws have been incorporated in this baseline?**

- P.L. 111-148, the Patient Protection and Affordable Care Act;
- P.L. 111-152, the Health Care and Education Reconciliation Act of 2010;
- P.L. 111-157, the Continuing Extension Act;
- P.L. 111-192, the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act; and
- P.L. 111-226, legislation providing aid to states.[1]

**Has CBO reestimated the effect of those laws on Medicare spending?** No. The baseline reflects "current law," so legislation enacted since March has been incorporated into CBO's baseline. The baseline was also updated for economic and technical changes. Those changes are not re-estimates of legislation, but rather modifications to CBO's baseline based on new data about current year spending and projections of economic factors. It is generally not possible to isolate the effects of economic and technical changes in the baseline on estimates of recently enacted legislation.

**In the future, will it be possible to compare CBO's estimates for the Medicare provisions of recently enacted legislation to actual results?** As a general matter, no. Making such a comparison will be possible only if the legislation created a new activity for which the spending will be tracked separately. While such tracking might be feasible for some provisions—such as mandatory appropriations for certain administrative activities—it will not be possible for the provisions that account for nearly all of the estimated changes in Medicare spending. In the *Budget and Economic Outlook: An Update,* CBO disaggregated changes in the baseline projections into economic, legislative, and technical components. For Medicare, the legislative changes equal CBO's original estimates. (For Public Laws 111-148 and 111-152, CBO's original

[1] P.L. 111-226 provides grants to states for teachers' salaries and extends and modifies an increase in the federal share of Medicaid costs that was scheduled to expire in December 2010.

estimates extended through 2019; the legislative change for Medicare in 2020 is a simple extrapolation of the original estimates.)

**Is the August baseline a "scoring baseline?"** No. For the remainder of the 111th Congress, CBO will continue to produce estimates using the technical and economic assumptions underlying its March 2010 baseline, as applied to current law. "As applied to current law" means that CBO's estimates will take into account legislation enacted since the March 2010 baseline was produced, and they will take into account certain administrative actions (such as rate-setting announcements).

**Are there significant changes in the information CBO provides on its Medicare baseline?** There are two significant changes from the previous version of the attached table:

- The "Components of Benefits Payments" section on page 2 of the table includes significant amounts that are "Not Allocated to Specific Services," and
- The table does not include projections of monthly premium amounts.

**Why does the table show spending for benefits that is "Not Allocated to Specific Services"?** The August 2010 baseline for Medicare includes substantial amounts that CBO cannot prospectively assign to projected spending for particular types of services:

- Adjustments to reflect year-to-date spending in 2010,
- The effect of actions by the Independent Payment Advisory Board (IPAB), and
- How the Secretary of Health and Human Services decides to use amounts available in the Medicare Improvement Fund (MIF).

*Year-to-date spending.* From January through late July 2010, spending by Part B of Medicare has been noticeably lower than CBO expected. As a result, projected Part B spending for fiscal year 2010 in the August baseline is about $12 billion lower than we would otherwise expect. We do not know how the effects of that reduction are distributed across types of service in Part B. Nor are we sure how much of that slowdown reflects an actual reduction in use of services and how much is related to slower submission and processing of claims. The August 2010 baseline incorporates the assumption that the effects of the reduction will fade over the next few years.

*IPAB and MIF.* CBO does not know how the IPAB will decide to meet its obligation to find savings or how the Secretary will decide to use MIF funds. Therefore, we cannot predict how the effects of those decisions on spending will be distributed across providers and types of services.

**Why doesn't CBO project the monthly amount of Part B premiums?** Premiums for Part B of Medicare are required to be set at a level that covers 25 percent of the costs of Part B, with the balance of costs paid from the general fund of the Treasury. (This discussion pertains to the basic Part B premium, not to the income-related premium that is paid by certain beneficiaries with relatively high incomes.)

Most Medicare enrollees have their Part B premium withheld from their monthly Social Security benefit. For those individuals, a "hold-harmless" provision guarantees that a benefit check will not decrease as a result of an increase in the Part B premium. In 2010 and, CBO projects, in 2011, the cost-of-living adjustment (COLA) to the Social Security benefit will be zero. Therefore, beneficiaries enrolled in Medicare in 2009 who are subject to the hold-harmless provision are projected to pay the same premium in 2011 that they paid in 2009 ($96.40).

The Medicare actuaries are required to set premiums to cover 25 percent of program costs. Premiums for beneficiaries subject to the hold-harmless provision cannot be increased to meet this requirement, but the actuaries have substantial discretion in setting premium levels for various groups of beneficiaries. These groups include new enrollees, beneficiaries whose premiums are paid by state Medicaid programs, and beneficiaries who pay premiums based on income. It is not possible for CBO to predict with reasonable accuracy the amount of the monthly premium that will paid by different types of beneficiaries during the years when the COLA is zero or very small. Providing an average monthly premium amount would not reflect the actual premium amounts paid by most beneficiaries.