CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 27, 2017

H.R. 849
Protecting Seniors' Access to Medicare Act

As ordered reported by the House Committee on Ways and Means on October 4, 2017

SUMMARY

H.R. 849 would repeal the provisions of the Affordable Care Act (ACA) that established the Independent Payment Advisory Board (IPAB) and that created a process by which the Board (or the Secretary of the Department of Health and Human Services) would be required under certain circumstances to modify the Medicare program to achieve specified savings.

CBO estimates that enacting H.R. 849 would increase direct spending by $17.5 billion over the 2018-2027 period. That estimate is extremely uncertain because it is not clear whether the mechanism for spending reductions under the IPAB authority will be invoked under current law for most of the next ten years. Under CBO's current baseline projections such authority is projected to be invoked in 2023, 2025, and 2027. However, given the uncertainty that surrounds those projections, it is possible that such authority would be invoked in other years. Taking into account that possibility, CBO estimates that repealing the IPAB provision of the ACA would probably result in higher spending for the Medicare program over the 2022 through 2027 period than would occur under current law. CBO's estimate represents the expected value of a broad range of possible effects from repealing IPAB provisions.

Pay-as-you-go procedures apply because enacting the legislation would affect direct spending. Enacting the bill would not affect revenues.

CBO estimates that enacting H.R. 849 would increase net direct spending and on-budget deficits by more than $5 billion in one or more of the four consecutive 10-year periods beginning in 2028.

H.R. 849 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 849 is shown in the following table. The costs of this legislation fall within budget function 570 (Medicare).

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	0	0	0	0	800	220	5,160	1,560	6,600	3,150	800	17,490
Estimated Outlays	0	0	0	0	800	220	5,160	1,560	6,600	3,150	800	17,490

BASIS OF ESTIMATE

H.R. 849 would repeal the provisions of the ACA that created IPAB. CBO estimates that enacting the bill would lead to a net increase in direct spending of $17.5 billion over the 2018-2027 period.

Background

Under current law, IPAB has the obligation to reduce Medicare spending—beginning in 2015—relative to what otherwise would occur if the rate of growth in spending per beneficiary is projected to exceed a target rate. For 2015 through 2019, that target rate is based on inflation; for 2020 and subsequent years, it is based on growth in the economy. Each year, the law requires the Chief Actuary of the Centers for Medicare and Medicaid Services (CMS) to project two numbers, each of which is a five-year moving average for the period ending two years in the future:

- The rate of change in net Medicare spending per beneficiary (that is, gross Medicare spending less enrollees' payments for premiums); and

- The rate of change in an economic measure—which is the average of the CPI-U and CPI-M[1] for five-year periods ending in 2015 through 2019, and GDP per capita plus 1 percentage point for five-year periods ending in 2020 and subsequent years.

1. The CPI-U is the consumer price index for all urban consumers and the CPI-M is the medical care category of the CPI-U. The medical care category is one of eight major expenditure groups that make up the CPI-U (see www.bls.gov/cpi/questions-and-answers.htm#Question_7).

In general, the Chief Actuary of CMS will compare those two values, and if the spending measure is larger than the economic measure, the difference will be used to determine the IPAB's savings target for the last year of the five-year period. However, current law prohibits modifications designed to achieve the savings target in two consecutive years if the Chief Actuary determines that the rate of growth in Medicare spending per beneficiary is below the rate of growth in national health expenditures per capita. In general, CBO expects that modifications designed to achieve the savings target would not be implemented in consecutive years.

CBO's current estimates of Medicare spending and its current economic projections result in an estimated IPAB spending measure that is above the economic measure in 2023 and each subsequent year through 2027. However, because of the limitation on making modifications in consecutive years, CBO's baseline projections include the assumption that modifications to the Medicare program designed to achieve the savings target would be implemented in 2023, 2025, and 2027. In addition, CBO anticipates that some of the savings from program modifications made to hit the savings target generated by the IPAB mechanism will compound and produce savings in subsequent years. Under current law, CBO projects that actions taken to achieve the IPAB spending target will reduce Medicare spending by $15 billion over the 2018-2027 period.[2]

Estimated Effects of H.R. 849 Over the 2018-2027 Period

The IPAB mechanism is essentially a one-sided bet: either modifications to achieve a savings target are required (resulting in savings) or they are not (resulting in no change).[3] IPAB cannot be instructed to increase spending. So, variations in those measures might lead to additional savings but could not lead to added costs. Because of the one-sided nature of the budgetary impact of variations in the spending and economic measures that determine IPAB's savings target, CBO must consider the probabilities associated with such variations when assessing the budgetary effects of possible changes in law.

To produce estimates for proposed legislative changes to the IPAB mechanism that take into account the probabilities of variations in the relevant measures, CBO applies that probability distribution to its point estimates of the five-year moving average of net Medicare spending per beneficiary to calculate an expected value for IPAB's savings

2. CBO's baseline projections result in a projected savings target of 0.1 percent for 2019. However, the 2017 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds (Trustees Report) determined that the target growth rate will not be exceeded for 2019. CBO views the Trustees Report as a final action that sets the savings target for 2019 to zero.

3. For a discussion of CBO's longstanding approach to estimating one-sided bets, see www.cbo.gov/sites/default/files/cbofiles/ftpdocs/15xx/doc1589/onesided.pdf.

target under both current law and under the proposal. CBO applies a *de minimis* rule that the target will be zero if the expected value of the savings target is less than 0.05 percent.[4]

Under that probability-based approach, and after applying the *de minimis* rule (for estimated effects that round to 0.0 percent), CBO estimates that the expected value of IPAB's savings target would be zero for 2018 through 2021. For 2022 through 2028, the expected value of the savings target would be between 0.1 percent and 0.7 percent of projected net Medicare spending. As a result, CBO estimates that repealing the IPAB mechanism would increase expected Medicare spending each year from 2022 through 2027, with the expected value of the net increase in Medicare spending for benefits totaling $17.5 billion over that period.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in the following table. Enacting H.R. 849 would not affect revenues.

CBO Estimate of Pay-As-You-Go Effects for H.R. 849, as ordered reported by the House Committee on Ways and Means on October 4, 2017

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
	NET INCREASE OR DECREASE (-) IN THE DEFICIT											
Statutory Pay-As-You-Go Impact	0	0	0	0	800	220	5,160	1,560	6,600	3,150	800	17,490

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting H.R. 849 would increase net direct spending and on-budget deficits by more than $5 billion in one or more of the four consecutive 10-year periods beginning in 2028.

4. A further discussion of this methodology can be found in CBO's estimate for H.R. 452, the Medicare Decisions Accountability Act of 2011, www.cbo.gov/sites/default/files/112th-congress-2011-2012/costestimate/hr45220120.pdf.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 849 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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