

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- 2012	2004- 2013
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	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.
