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

Peter R. Orszag, Director

October 10, 2007

Honorable Jim McCrery
Ranking Republican
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Congressman:

At your request, CBO is providing additional information regarding its cost estimate for Title IV of H.R. 3162, the Children's Health and Medicare Protection Act of 2007 (the CHAMP Act), as passed by the House of Representatives on August 1, 2007.[1]

Enrollment effects. CBO projects that enacting the CHAMP Act would result in a significant decrease in enrollment in Medicare Advantage (MA) plans. Most of that change would arise from the provisions of section 401, which would lower the plan benchmarks over the years 2009-2011, remove spending for payments for indirect medical education from the benchmarks, and eliminate the regional plan stabilization fund.[2] Of those provisions, the reduction in plan benchmarks would have the greatest budgetary and enrollment effects.

CBO has previously reported that reducing the MA benchmarks to the level of per capita Medicare spending in the fee-for-service (FFS) sector would reduce MA enrollment in 2012 by approximately 6.2 million beneficiaries relative to our baseline projection of 12.5 million beneficiaries. Because the CHAMP

1. That estimate was transmitted on August 1, 2007. For background information on these topics and others related to the Medicare Advantage program, see statement of Peter R. Orszag, Director, Congressional Budget Office, before the House Budget Committee (June 28, 2007), and Congressional Budget Office, *Medicare Advantage: Private Plans in Medicare* (June 28, 2007).

2. The benchmarks are the maximum payments that the government will make for enrollees in private plans.

Act would also remove payments for indirect medical education from plan benchmarks, its enrollment effects would be larger than those of reducing the benchmarks alone; CBO estimates that section 401 of the CHAMP Act would reduce enrollment in MA plans by a total of approximately 7 million beneficiaries in 2012 relative to CBO's baseline projection. That would leave about 5.5 million beneficiaries in plans. Compared with current enrollment of 8.2 million beneficiaries, that outcome would represent a reduction of 2.7 million beneficiaries.

CBO projects a similar decrease in enrollment under the bill for 2017. Under current law, CBO expects that MA plans will enroll 14.3 million beneficiaries in 2017. Under the proposal, CBO estimates enrollment would total 6.1 million in that year. (We cannot provide a reliable estimate for what portion of that enrollment decline is attributable to enrollees losing plans and what portion is attributable to Medicare beneficiaries choosing not to join.)

The change to the benchmarks would be significant enough to affect enrollment in almost every area of the country, including both urban and rural areas. Plans in counties with benchmarks at one of the two floor benchmarks would experience the largest payment and enrollment reductions; those counties are generally rural ones or suburban and urban counties with low FFS costs. Plans in counties with benchmarks nearest FFS costs would see the smallest payment and enrollment reductions; those counties are generally urban and suburban counties with relatively high local FFS costs. However, because CBO's estimates are focused on national enrollment and payment calculations, we cannot provide specific estimates for different types of geographic areas.

Extra benefits. Reductions in MA benchmarks would result in reductions in extra benefits and rebates offered by participating plans. The Centers for Medicare & Medicaid Services (CMS) has estimated that the value of such extra benefits and rebates to beneficiaries enrolled in MA is $86 per month in 2007.[3] Absent a change in law, CBO projects the value of such extra benefits and rebates will increase to about $90 to $100 per month in 2012, on average. Under H.R. 3162, CBO estimates that those extra benefits would be reduced to about $30 to $40 per month for beneficiaries remaining in the MA program.

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3. *Medicare Advantage in 2007*, Centers for Medicare & Medicaid Services (May 2007), p.10.

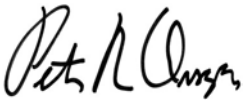
Beneficiaries who leave MA would receive no extra benefits or rebates (as under current law).

Plans would respond to those reduced federal subsidies in a variety of ways. CMS reports that the majority of the $86 per month in extra benefits and rebates is directed at reduced cost sharing (60 percent), with 15 percent directed at reduced premiums and the remainder directed at extra benefits. Considering that distribution of extra benefits and rebates, it is clear that plans would be forced to increase cost sharing under the policy, but would probably also need to modify their benefit packages and increase premiums as well. It is not possible to predict with confidence what mix of benefit changes and premium increases plans would choose. Those changes would reflect plans' estimates of beneficiaries' preferences and the level of local benchmarks that ultimately determine the value of extra benefits and rebates.

Plan participation. Enacting title IV of the CHAMP Act would lead to a reduction in the number of plans offered in most areas of the country. Some areas would lose all or nearly all of their plans, while counties whose benchmarks have been historically determined by local FFS costs—the so-called "FFS counties"—would see more modest reductions in plan choice. Those reductions would be larger in counties paid according to the floor benchmarks, which tend to be rural and suburban ones with low FFS costs. CBO cannot project how many plans would be available nationally or for any geographic subgroup. Such estimates would be highly uncertain, owing to the diversity in plan sizes and their ability to create or merge products quickly.

If you wish further details on this subject, we will be pleased to provide them. The CBO staff contact is Tim Gronniger, who can be reached at 226-9010.

Sincerely,



Peter R. Orszag
Director

cc: Honorable Charles B. Rangel
Chairman