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

January 21, 2009

Honorable Charles B. Rangel
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

At your request, CBO has analyzed the effect on federal direct spending and revenues of the Health Information Technology for Economic and Clinical Health (HITECH) Act as posted on the Web site of the Committee on Ways and Means on January 16, 2009.[1]

The HITECH Act would establish payment incentives in the Medicare and Medicaid programs to encourage providers to adopt health information technology (health IT). Health IT refers to information technology applications specifically designed for the practice of clinical medicine, including electronic health records (EHR), personal health records, health information exchange, computerized physician order entry, clinical decision support systems, and electronic prescribing. To meet the requirements set forth in the bill, providers would have to purchase a "qualifying electronic health record" system with a standard package of functionalities. Although adoption would be encouraged through payment incentives in the Medicare and Medicaid programs, all health care spending—both public and private—would be affected by the increased use of health IT. CBO expects that its adoption on a nationwide basis would reduce total spending on health care by diminishing the number of inappropriate tests and procedures, reducing paperwork and administrative overhead, and decreasing the number of adverse events resulting from medical errors.

The bill also would accelerate spending from the Medicare Improvement Fund, provide funding for some costs incurred by the Centers for Medicare & Medicaid Services in administering the payment-incentive provisions, and make other changes to the Medicare program.

[1] See http://waysandmeans.house.gov/media/pdf/110/sbill.pdf. The HITECH Act is title IV.

As a result of the HITECH Act's effects on direct spending and revenues, CBO estimates that enacting the bill would increase on-budget deficits by a total of $17.1 billion over the 2009-2019 period; it would increase the unified budget deficit over the same period by an estimated $15.8 billion (see attached table). The effects on direct spending and revenues over the 2009-2013 and 2009-2018 periods are relevant for enforcing pay-as-you-go rules under the current budget resolution. CBO estimates that those effects would increase on-budget deficits by $15.5 billion over the 2009-2013 period and $19.8 billion over the 2009-2018 period.

This legislation also would authorize the appropriation of such sums as are necessary for the Office of the National Coordinator for Health Information Technology to develop a national infrastructure for health IT, as well as activities related to the promotion of IT adoption. The amount of such funding could vary greatly depending on what the Congress decides to appropriate for those purposes.

Direct Spending

Bonus Payments and Penalties. The bill would establish a schedule of Medicare bonus payments, beginning in 2011, that would be paid to hospitals and physicians that adopt and use qualifying health IT. Beginning in 2016, Medicare would reduce payment rates to hospitals and physicians that are not using qualifying health IT. (Payment adjustments also would be applied to Medicare Advantage plans that operate hospitals or employ physicians.) Medicare's bonus payments and penalties would not affect the Part B premiums (which are set to cover one-quarter of that program's costs) or the benchmarks that are used in the calculation of payment rates for Medicare Advantage plans. CBO estimates that spending for the bonuses and payment reductions from the penalties would increase net Medicare spending by $17.7 billion over the 2011-2019 period.

The bill also would establish bonus payments (but not penalties) in the Medicaid program for providers that adopt and use qualifying health IT. The Medicaid bonus payments to providers would be paid entirely by the federal government; the federal government also would pay states 90 percent of certain administrative costs related to the bonus-payment

program. CBO estimates that the direct effect on Medicaid spending from those provisions would be an increase of $12.4 billion over the 2011-2019 period. In combination, net Medicare and Medicaid spending for bonuses and penalties would total $30.0 billion over that period.

Under current law, CBO estimates that about 45 percent of hospitals and 65 percent of physicians will have adopted qualifying health IT in 2019.[2] CBO estimates the incentive mechanism would boost those adoption rates to about 70 percent for hospitals and about 90 percent for physicians.

Spending for Benefits. CBO anticipates that accelerating the adoption of health IT would result in reductions in health care spending. Those reductions would be realized by, among other things, reducing the number of inappropriate tests and procedures, reducing paperwork and administrative overhead, and decreasing the number of adverse events resulting from medical errors. Health IT could also improve the quality of care provided to patients by improving the information available to clinicians at the time of treatment, by encouraging the use of evidence-based medicine, and by helping physicians manage patients with complex, chronic conditions. The use of health IT could also increase some costs because improved adherence to treatment protocols could increase the amount of care provided. On net, CBO estimates that the accelerated adoption of health IT that would result from implementing the HITECH Act would reduce costs in the health care system by about 0.3 percent during the 2011-2019 period.[3]

Under Medicare's current payment rules, the only savings in Medicare's expenditures from the adoption of health IT would be from reducing the utilization of some types of services—for example, by reducing the probability of hospital admissions resulting from preventable adverse medical events or reducing the utilization of unnecessary diagnostic services. Health IT also would help providers reduce their operating costs.

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[2] In *Budget Options, Volume 1: Health Care* (December, 2008), CBO stated that, by 2019, about 40 percent of physicians will adopt health IT that conforms to interoperability standards for that year. The higher adoption rate mentioned above reflects a less-stringent standard to qualify for bonus payments or avoid penalties under the HITECH Act.

[3] CBO anticipates near-universal adoption of health IT over the next quarter century even without legislative action. As a result, the 0.3 percent reduction in health care costs estimated to result in the near term from enactment of this bill would diminish in later years, when the use of health IT will be more pervasive in any event.

However, because Medicare's payment rates in the fee-for-service sector are not adjusted to reflect changes in such operating costs, those savings would not result in lower expenditures for the Medicare program. CBO estimates that the changes in utilization from accelerating the adoption of health IT would reduce Medicare spending by $4.4 billion over the 2011-2019 period.

By contrast, CBO expects that state Medicaid programs, plans in the Federal Employees Health Benefits (FEHB) program, and private insurance plans would negotiate payment rates with providers that would enable those payers to realize most of the savings from reductions in providers' operating costs (in addition to realizing the savings from reducing the utilization of some types of services). CBO estimates that the resulting federal savings in Medicaid would total $7.3 billion over the 2011-2019 period.

Federal payments of FEHB premiums for retired federal employees are considered direct spending. (Most contributions for retired employees of the U.S. Postal Service are considered off-budget direct spending.) CBO estimates that enacting the HITECH Act would reduce on-budget direct spending for the FEHB program by $0.5 billion over the 2011-2019 period, and would reduce off-budget direct spending for the FEHB program by an additional $0.2 billion. Thus, the total reduction in direct spending for the FEHB program would amount to $0.7 billion over the 2011-2019 period.[4]

In total, CBO estimates that enacting the HITECH Act would reduce federal direct spending for benefits in the Medicare, Medicaid, and FEHB programs by about $12 billion over the 2011-2019 period.

Other Direct Spending. The HITECH Act would modify the timing of spending from the Medicare Improvement Fund, which the Secretary of Health and Human Services may use to make improvements in the fee-for-service program. The bill would accelerate that spending from 2016, 2017, and 2018 to 2014 and 2015; that change would not affect total Medicare

[4] CBO also estimates that enacting the HITECH Act would reduce the cost of health insurance for active federal workers by about $0.1 billion over the 2009-2014 period. Those costs are considered discretionary spending because the federal share of FEHB premiums for active workers is funded through appropriations to the agencies that employ those workers. Realizing the potential discretionary savings would require adjustments to the amounts appropriated to each agency.

spending over the 2009-2013 or 2009-2018 periods. The bill also would provide about $0.9 billion to pay for some of the administrative costs that the Centers for Medicare & Medicaid Services would incur in implementing the new payment-incentive provisions. It also would modify certain payment rates and rules for hospices and certain hospitals. CBO estimates those changes would cost $0.3 billion over the 2009-2019 period (with most of that spending in 2009).

Federal Revenues

Because accelerating the use of health IT would lower health care costs for private payers, it would result in lower health insurance premiums in the private sector. As a result, private employers would pay less of their workers' compensation in the form of tax-advantaged health insurance premiums and more in the form of taxable wages and salaries. Therefore, federal tax revenues would increase. CBO estimates that on-budget revenues (from income taxes and the Hospital Insurance payroll tax—for Medicare Part A) would increase by $2.0 billion over the 2011-2019 period. Higher receipts from Social Security payroll taxes, which are off-budget, would add another $1.1 billion, resulting in an estimated increase in total tax revenues of $3.1 billion over the 2011-2019 period.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Tom Bradley.

Sincerely,

Robert A. Sunshine
Acting Director

Attachment

cc: Honorable Dave Camp
Ranking Member

January 21, 2009

Estimated Effect on Federal Direct Spending and Revenues of the Health Information Technology for Economic and Clinical Health Act of 2009, as posted on the Web site of the Committee on Ways and Means on January 16, 2009

(by fiscal years; in billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2009-2019
CHANGES IN DIRECT SPENDING (Outlays)												
Bonus Payments and Penalties												
Medicare	0	0	2.7	4.6	5.0	4.0	2.5	0.9	-0.2	-0.9	-1.0	17.7
Medicaid	0	0	1.5	1.9	2.2	2.1	1.7	1.5	0.8	0.5	0.3	12.4
Subtotal	0	0	4.2	6.5	7.1	6.1	4.3	2.4	0.6	-0.4	-0.7	30.0
Changes in Spending for Benefits												
Medicare	0	0	-0.1	-0.3	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-4.4
Medicaid	0	0	-0.4	-0.6	-0.8	-0.8	-0.9	-0.9	-0.9	-1.1	-1.1	-7.3
FEHB (on-budget)	0	0	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5
Subtotal, On-budget	0	0	-0.5	-0.9	-1.3	-1.5	-1.5	-1.5	-1.6	-1.8	-1.7	-12.1
FEHB (off-budget)	0	0	*	*	*	*	*	*	*	*	*	-0.2
Subtotal, Changes in Spending for Benefits	0	0	-0.5	-0.9	-1.3	-1.5	-1.5	-1.6	-1.6	-1.8	-1.7	-12.3
Medicare Improvement Fund	0	0	0	0	0	9.2	1.2	-6.3	-3.5	-0.7	0	0
Mandatory Administrative Funding												
Medicare	0.1	0.1	0.1	0.1	0.1	0.1	0.1	*	*	*	*	0.5
Medicaid	*	*	*	*	*	*	*	*	*	*	*	0.4
Subtotal	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.9
Other Provisions	0.3	*	*	0	0	0	0	0	0	0	0	0.3
Total Changes in Direct Spending	0.4	0.1	3.8	5.7	5.9	13.9	4.1	-5.4	-4.4	-2.8	-2.4	18.9
CHANGES IN REVENUES												
Income and HI Payroll Taxes (on-budget)	0	0	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	2.0
Social Security Payroll Taxes (off-budget)	0	0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	1.1
Total Revenue Changes	0	0	0.1	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	3.1
CHANGES IN FEDERAL DEFICITS FROM DIRECT SPENDING AND REVENUES [1]												
On-budget Changes	0.4	0.1	3.8	5.6	5.7	13.7	3.8	-5.6	-4.7	-3.1	-2.6	17.1
Total Changes	0.4	0.1	3.7	5.5	5.6	13.5	3.7	-5.7	-4.8	-3.2	-2.8	15.8
Memorandum:												
Changes in Direct Spending, by Program												
Medicare	0.3	0.1	2.7	4.4	4.5	12.6	3.2	-5.9	-4.2	-2.1	-1.5	14.2
Medicaid	*	*	1.2	1.4	1.5	1.4	0.9	0.6	-0.1	-0.6	-0.8	5.4
FEHB (Total)	0	0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.7

Notes:

* = between -$50 million and $50 million. Details may not add to totals because of rounding.

FEHB is the Federal Employees Health Benefits program (most FEHB spending for annuitants of the U.S. Postal Service is off-budget); HI is the Medicare Hospital Insurance program (Part A).

1. Positive numbers indicate an increase in the deficit; negative numbers indicate a reduction in the deficit. In addition to the direct spending and revenue effects shown in the table, the legislation would authorize increases in spending that is subject to appropriation action.