ASPE
ISSUE BRIEF

ESTIMATED SAVINGS OF $5,000 TO EACH MEDICARE BENEFICIARY FROM ENACTMENT THROUGH 2022 UNDER THE AFFORDABLE CARE ACT

Summary

The Affordable Care Act, enacted in 2010, makes many changes to strengthen Medicare and provide better benefits to seniors, while slowing cost growth. As a result, average Medicare beneficiary savings in traditional Medicare will be approximately $5,000 over the 2010 to 2022 period (see Table 1). Beneficiaries who have high prescription drug spending will save much more – more than $18,000 over the same period.

This issue brief provides estimates of savings to seniors and people living with disabilities enrolled in traditional Medicare from the provisions in the Affordable Care Act. The Affordable Care Act favorably affects beneficiary expenditures in four ways. First, premiums for Part B physician and certain other services are expected to increase at a slower rate than would have occurred without the Affordable Care Act, resulting in lower Part B premiums over time. Second, beneficiary copayments and coinsurance under Parts A and B will increase more slowly because the Affordable Care Act slows the rate of growth in payments to hospitals and other providers. Third, closing the Medicare prescription drug coverage gap, often called the "donut hole," will lower costs for beneficiaries who otherwise would have been required to spend thousands of dollars out of their own pockets for their prescription drugs. Finally, the Affordable Care Act provides many preventive services to people with Medicare at no additional cost.

The Affordable Care Act will lower Medicare spending compared to the baseline prior to the law's passage through reductions in extra subsidies paid to Medicare Advantage plans; reductions in the rate of growth in provider payments; efforts to make the Medicare program more efficient, coordinated, and quality-oriented; and reductions in waste, fraud and abuse. These provisions will lead to corresponding savings for beneficiaries through lower copayments and premiums. An expected slower rate of growth in Medicare spending leads to a slower rate of growth in beneficiary out-of-pocket payments, and a slower rate of growth in Part B premiums. In addition, the closing of the donut hole will result in large savings for beneficiaries with high levels of prescription drug spending.

Average savings per Medicare beneficiary in traditional Medicare are estimated to be $160 in 2012, increasing to $812 in 2022 (see Table 1). For a beneficiary with spending in the donut hole, total estimated annual savings increase from $735 in 2012 to $2,599 in 2022.

Table 1

Annual Savings per Beneficiary in Traditional Medicare Under The Affordable Care Act

	Beneficiary Not Reaching the Donut Hole ($)	Beneficiary Reaching the Donut Hole ($)	All Fee-For-Service Beneficiaries ($)
2010	-6	244	20
2011	27	631	90
2012	92	735	160
2013	134	857	209
2014	168	996	251
2015	212	1,152	303
2016	261	1,327	362
2017	310	1,555	426
2018	354	1,799	488
2019	405	2,075	559
2020	462	2,196	623
2021	539	2,386	710
2022	629	2,599	812
Total 2010-22	3,587	18,553	5,013
Total 2013-22	3,474	16,943	4,743

Notes:

1. Savings include parts A, B, and D effects. Part A & B, and D premium savings for 2010-19 estimated by OACT.
2. Parts A and B estimates for 2010-19 are provided by OACT, John Shatto's memo on October 5, 2010.
3. Estimates for 2020-22 are computed by ASPE in consultation with OACT.
4. Savings for beneficiaries in the donut hole estimated by ASPE, using Medicare Part D data in 2010 generated by Acumen for ASPE (Non-LIS FFS Beneficiaries with at least 1 Month in D in 2010) and the discounts to beneficiaries in 2011 are benchmarked to CMS analysis of 2011 PDE claims data.

Changes in premiums and cost-sharing will also occur in the Medicare Advantage (MA) program. The Affordable Care Act strengthens this program by gradually eliminating excessive payments to health plans, rewarding quality, and improving protections for beneficiaries against overly high cost sharing. The most recently available data on Medicare Advantage plans suggest that enrollment for 2013 in the MA program is projected to increase by 11 percent from 2012 and premiums will remain steady.[1]

[1] "Medicare Advantage remains strong," Press Release, U.S. Department of Health and Human Services, September 19, 2012, available at http://www.hhs.gov/news/press/2012pres/09/20120919a.html.
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Methods

This memo was prepared by analysts in the Office of the Assistant Secretary for Planning and Evaluation (ASPE) in consultation with the Office of the Actuary (OACT) of the Centers for Medicare & Medicaid Services (CMS). The net savings for traditional Medicare beneficiaries from reduced Part B premiums, reduced Parts A and B coinsurance and copayments, and from increased Part D premiums were estimated by OACT in 2010 (note: they have not been updated for actual experience from 2010 through 2012).[2] Actual savings from reduced Parts A and B coinsurance will vary across beneficiaries. Beneficiaries with multiple chronic conditions, those using a higher-than-average volume of services, as well as those who make greater use of preventive services, will enjoy a greater-than-average amount of savings. The estimated effects for beneficiaries not reaching the donut hole are shown in Table 2.

Table 2

Components of Affordable Care Act Annual Savings per Fee-For-Service Beneficiary Not Reaching the Donut Hole

	Effects of reduced part B premium (Annual $)	Effects of reduced A & B coinsurance (Annual $)	Effects of increased part D premium (Annual $)	Total Effect (Annual $)
2010	0	-6	0	-6
2011	19	14	-6	27
2012	53	41	-2	92
2013	72	62	0	134
2014	90	79	-1	168
2015	113	101	-2	212
2016	139	124	-2	261
2017	169	148	-7	310
2018	192	175	-13	354
2019	218	207	-20	405
2020	248	245	-31	462
2021	281	291	-33	539
2022	319	346	-35	629

Notes:
1. Estimates for 2010-19 are provided by OACT, John Shatto's memo on October 5, 2010.
2. Estimates for 2020-22 are computed by ASPE in consultation with OACT.

The Affordable Care Act requires drug manufacturers to provide a discount for covered brand name Part D drugs sold to beneficiaries in the donut hole (50 percent starting in 2011) and

[2] Memo by John Shatto, Director of Medicare & Medicaid Cost Estimates Group, CMS Office of the Actuary, October 5, 2010.

provides subsidies for covered brand name Part D drugs to those beneficiaries rising from 2.5 percent in 2013 to 25 percent in 2020. Finally, the Affordable Care Act provides subsidies for generic drugs purchased in the donut hole beginning at 7 percent in 2011 and rising to 75 percent in 2020. Together, these changes mean that a beneficiary will pay the standard 25 percent coinsurance in a standard plan in 2020 for generic and brand drugs, and the donut hole will be closed.

Since the Affordable Care Act was enacted, 5.4 million people with Medicare have saved over $4.1 billion on prescription drugs in the donut hole, and an estimated 37 million people with Medicare have received a preventive benefit free of charge.[3]

The Affordable Care Act also lowers the rate of growth of the out-of-pocket threshold for drug spending by beneficiaries in the donut hole from 2014 to 2019. We estimate savings to beneficiaries from this change using a combination of information from OACT and results from the analysis described above.[4]

The estimates are presented in Table 3 below. For beneficiaries with spending in the donut hole, total estimated Parts A, B, and D savings increase from $735 in 2012 to $2,599 in 2022.

[3] "Medicare Advantage remains strong," Press Release, U.S. Department of Health and Human Services, September 19, 2012, available at http://www.hhs.gov/news/press/2012pres/09/20120919a.html; or "Medicare Prescription Drug Premiums to Remain Steady for Third Straight Year," Press Release, Centers for Medicare & Medicaid Services, August 6, 2012, available at http://www.cms.gov/apps/media/press_releases.asp.

[4] "Estimated Financial Effects of the 'Patient Protection and Affordable Care Act,' as Amended," Memo from Richard Foster, Office of the Actuary, Centers for Medicare & Medicaid Services, April 22, 2010, Table 3, Section 1101. In this memo, OACT estimated that the cost to Medicare from the slower growth in the out of pocket threshold was approximately 11% of the cost to Medicare from closing the donut hole. We apply this 11% estimate to our estimate of the cost to Medicare from closing the donut hole to estimate the savings to beneficiaries from the slower growth in the out-of-pocket threshold from 2014 to 2019.

Table 3

Components of Affordable Care Act Annual Savings per Fee-For-Service Beneficiary Reaching the Donut Hole ($)

	Effects of reduced A & B coinsurance and B premium /1	Effect of increased D premium /1	Filling the donut hole /2 for a beneficiary whose spending reaches the hole	Reducing the growth in part D OOP threshold for a bene in the gap /1	Total Effect (Annual $)
2010	-6	0	250	0	244
2011	33	-6	604	0	631
2012	94	-2	643	0	735
2013	134	0	723	0	857
2014	169	-1	780	48	996
2015	214	-2	879	62	1,152
2016	263	-2	954	112	1,327
2017	317	-7	1,114	131	1,555
2018	367	-13	1,293	153	1,799
2019	425	-20	1,492	178	2,075
2020	493	-31	1,734	0	2,196
2021	572	-33	1,847	0	2,386
2022	665	-35	1,969	0	2,599

Notes:

1. Estimates for 2010-19 are provided by OACT, John Shatto's memo on October 5, 2010; and estimates for 2020-22 are computed by ASPE in consultation with OACT.
2. Estimates by ASPE based on Medicare Part D data in 2010 generated by Acumen for ASPE (Non-LIS Beneficiaries with at least 1 Month in D in 2010) and the discounts to beneficiaries in 2011 are benchmarked to CMS analysis of 2011 PDE data.

Part D estimates incorporate 3 effects: (1) savings due to filling the doughnut hole, (2) savings due to reducing the growth rate of the catastrophic threshold during 2014-19, and (3) an offset from increased part D premium.