



August 24, 2010

Honorable Mike Crapo
United States Senate
Washington, DC 20510

Dear Senator:

This letter responds to three questions you asked regarding the deficit impact of certain health care proposals that were considered by the Congress earlier this year or that have been discussed recently.

Budget Impact of Enacted Health Legislation in March 2010

First, we can confirm the estimate of the overall impact on the federal budget of the major health care legislation enacted in March. Specifically, the Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation estimated that enactment of the Patient Protection and Affordable Care Act, or PPACA (Public Law 111-148) and the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152) will produce \$143 billion in net budgetary savings over the 2010-2019 period.¹ That figure includes \$124 billion in net savings for the health and revenue provisions of both laws and \$19 billion in net savings for the education provisions of the Reconciliation Act.

In its August 2010 report on the budget outlook, CBO extrapolated the estimated effects of the legislation to cover fiscal year 2020.² On balance, the two laws' health care and revenue provisions are estimated to reduce the projected deficit in 2020 by \$28 billion, and the education provisions of the Reconciliation Act are estimated to reduce the projected deficit in 2020 by \$2 billion. (All of those estimates are for the unified budget, including both on-budget effects and off-budget effects. Changes related to Social Security and the U.S. Postal Service are classified as off-budget.)

¹ Table 2 of March 20, 2010 cost estimate,
<http://www.cbo.gov/ftpdocs/113xx/doc11379/AmendReconProp.pdf>.

² See Box 1-1 (pp. 6-7) of *The Budget and Economic Outlook: An Update*, Congressional Budget Office (August 2010).

Costs for a Legislative Option Regarding Payments to Physicians

Your second question addressed the costs of a proposal to prevent payment reductions under Medicare's physician fee schedule. Such payments to physicians are governed by a system known as the sustainable growth rate (SGR) formula. Under current law, payment rates for physicians' services will be reduced in December 2010 to about 21 percent below the 2009 level, with additional rate reductions taking effect in future years.

CBO previously estimated that the costs of freezing payment rates at the 2009 level for six months during the second half of calendar year 2010 and allowing for an inflation update for 2011 through 2019 for physician payment rates would total \$278 billion.³ That estimate does not reflect the subsequent enactment of legislation that modified physician payment rates in 2010.⁴ Such legislation increased physician payment rates by 2.2 percent for June through November of 2010, with an estimated cost of \$6.3 billion over the 2010–2011 period. Thus, the net cost for providing December 2010 payments at the 2009 level and allowing for an inflation update for 2011 through 2019 would be \$272 billion.

However, legislation enacted during the remainder of this Congress would be assessed over the 2011–2020 period, rather than through 2019. As a result, the estimated cost over the 2011–2020 period would be \$330 billion (also assuming that payments in 2020 would be adjusted for inflation).

Health Care Savings under PPACA and the Reconciliation Act

Finally, you asked what the net deficit impact would be if certain provisions of PPACA and the Reconciliation Act that were estimated to generate net savings were eliminated—specifically, those which were originally estimated to generate a net reduction in mandatory outlays of \$455 billion over the 2010–2019 period. The estimate of \$455 billion mentioned in your letter represents the net effects of many provisions. Some of those provisions generated savings for Medicare, Medicaid, or the Children's Health Insurance Program, and some generated costs. If those provisions were repealed, CBO estimates that there would be an increase in deficits similar to its original estimate of \$455 billion in net savings over that period.

³ <http://www.cbo.gov/budget/factsheets/2010b/SGR-Menu.pdf>

⁴ See cost estimate for the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 (P.L. 111-192); prior legislation froze physician payment rates at the 2009 level for January through May of 2010.

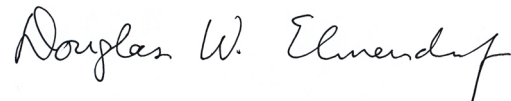
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CBO's earlier estimate was based on the forecasts of economic conditions, health care spending, and other technical factors that CBO published in 2009. Since that time, CBO has prepared new baseline projections consistent with updated economic and technical information, and has also extended its baseline to include 2020. We have not updated the estimate of health-related savings reported in March, but CBO has no reason to believe that such an estimate would differ substantially from the original one.

I hope you find this information helpful. The CBO staff contacts are Tom Bradley and Lori Housman.

Sincerely,

A handwritten signature in black ink that reads "Douglas W. Elmendorf". The signature is written in a cursive style with a large, prominent 'D' at the beginning.

Douglas W. Elmendorf
Director

cc: Honorable Max Baucus
Chairman
Committee on Finance

Honorable Chuck Grassley
Ranking Member