




CONGRESSIONAL BUDGET OFFICE  
U.S. CONGRESS  
WASHINGTON, DC 20515

MEMORANDUM

June 27, 1990

To: Health Staff

From: Sandra Christensen 

Subject: **Estimated Impact of Legislation from 1981 through 1989 on Medicare Disbursements**

This memorandum responds to numerous requests to update an earlier analysis called "Recent Trends in Medicare Costs," done in March of 1988. It provides estimates of the impact that legislation enacted since 1980 has had on costs under Medicare, separately by major service categories.

Except for 1988, the provisions examined here are contained in the annual budget reconciliation acts from 1981 through 1989. In 1988, there was no budget reconciliation act, but the Medicare Catastrophic Coverage Act (MCCA) was passed. Almost all of the new Medicare benefits provided under this act were subsequently repealed, however. Only new benefits under the Hospital Insurance program were implemented, and these were in place only for calendar year 1989. The only MCCA benefit to survive repeal was a relaxation of the blood deductible requirement, and only the costs of this benefit are shown in the accompanying tables for 1988.

Only legislative changes that altered payment or coverage provisions are included in the analysis. Those changes that altered Medicare receipts through premiums or taxes are not considered here. Thus, the impacts shown are those on total federal disbursements under Medicare, rather than on costs net of offsetting receipts. The results also reflect the impact on total costs under Medicare (adding cost-sharing amounts paid by enrollees to federal disbursements) because cost-sharing has been a fairly constant proportion of total costs throughout the 1980s.

In brief, the analysis indicates that legislation over the past nine years has, on average, reduced costs by nearly 2 percent a year, relative to what spending under Medicare would otherwise have been. Physicians and hospital outpatient departments account for a disproportionately large share of the overall savings, while savings from other service categories (hospital inpatient, nursing, and home health) are small in proportion to base disbursements for them. Nevertheless, growth in real spending per enrollee for physicians' services during the 1980s has been just as rapid as it was in the previous six years, while growth in spending for most other service categories has declined during the 1980s.

#### ESTIMATED IMPACT USING CBO'S COST ESTIMATES

Table 1 shows CBO's estimates of three-year savings under each bill, presented as a percent of base disbursements under Medicare--that is, as a percent of what spending for Medicare would have been in the absence of the legislation. Estimates of both savings and of base spending are those made at the time of enactment. The estimates for each year were based on a unique set of economic and spending projections that were thought to be applicable at the time each estimate was made. There is no assurance that the estimates shown accurately reflect savings actually achieved.

Legislation resulted in small net increases in Medicare disbursements in three of the nine years examined (those with negative values for savings as a percent of base), but savings in the other six years were large enough to yield annual savings of 1.7 percent of base spending, on average over all nine years from 1981 through 1989.<sup>1</sup> Nearly 59 percent of the savings came from changes in payment provisions for hospital inpatient services, while about 31 percent of savings resulted from provisions affecting physicians' services.

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1. The figures in the "savings as a percent of base" column are used to obtain weighted averages for the percent distribution of savings in Table 1, and for the relative share of savings in Table 2. The weighted averages take appropriate account of both the size and sign of the savings estimates made for each year. The distributions and relative shares shown for individual years are difficult to interpret appropriately without reference to the size and sign of the percent of base column.

TABLE 1. PERCENT DISTRIBUTION BY SERVICE CATEGORY OF SAVINGS UNDER LEGISLATION ENACTED 1981-1989

Year of Enactment	Savings as a Percent of Base	Percent Distribution of Savings by Service Category						
		Admin	Total Benefits	Hospital Inpatient	SNF	MH & Hospice	Hospital Outpatient	Physician & Lab
1981	2.6%	1.1%	98.9%	51.6%	5.8%	3.7%	23.7%	14.1%
1982	5.5%	0.3%	99.7%	82.6%	0.6%	1.1%	4.0%	11.3%
1983	-0.1%	2.4%	97.6%	86.5%	11.1%	0.0%	0.0%	0.0%
1984	1.8%	1.4%	98.6%	31.1%	-2.1%	2.1%	1.1%	66.4%
1985	1.5%	-0.7%	100.7%	64.7%	-1.0%	1.0%	1.6%	34.3%
1986	-0.4%	8.3%	91.7%	78.6%	0.8%	3.0%	4.4%	4.9%
1987	3.0%	-0.1%	100.1%	51.5%	-0.3%	0.4%	8.5%	40.1%
1988	-0.0%	0.0%	100.0%	100.0%	0.0%	0.0%	0.0%	0.0%
1989	1.2%	-6.1%	106.1%	24.3%	0.2%	0.8%	7.9%	72.9%
Averages								
1981-89	1.7%	-0.3%	100.3%	58.6%	0.7%	1.5%	8.0%	31.5%
1981-87	2.0%	0.2%	99.8%	61.6%	0.8%	1.5%	8.1%	27.9%

SOURCE: Congressional Budget Office.

NOTE: Uses savings and baseline estimates made at the time of enactment for the subsequent three years. Negative values for percent of base indicate net costs rather than savings. Except for the percent of base column, averages are weighted by the percents in that column. Only the benefit expansion associated with the blood deductible is shown for legislation in 1988 because other new Medicare benefits enacted in 1988 were repealed.

TABLE 2. SAVINGS SHARE RELATIVE TO SHARE OF PREVIOUS YEAR'S DISBURSEMENTS BY SERVICE CATEGORY

Year of Enactment	Savings as a Percent of Base	Ratio of Savings Share to Disbursement Share by Service Category						
		Admin	Total Benefits	Hospital Inpatient	SNF	MH & Hospice	Hospital Outpatient	Physician & Lab
1981	2.6%	0.38	1.02	0.79	5.79	1.71	4.48	0.60
1982	5.5%	0.12	1.02	1.27	0.61	0.49	0.70	0.48
1983	-0.1%	1.00	1.00	1.37	12.36	0.00	0.00	0.00
1984	1.8%	0.57	1.01	0.50	-2.44	0.70	0.19	2.61
1985	1.5%	-0.29	1.03	1.02	-1.27	0.33	0.30	1.37
1986	-0.4%	3.66	0.94	1.29	1.06	0.99	0.68	0.19
1987	3.0%	-0.06	1.02	0.89	-0.40	0.14	1.19	1.36
1988	-0.0%	0.00	1.02	1.79	0.00	0.00	0.00	0.00
1989	1.2%	-2.74	1.09	0.45	0.11	0.30	1.04	2.38
Averages								
1981-89	1.7%	-0.18	1.03	0.93	0.61	0.62	1.38	1.18
1981-87	2.0%	0.05	1.02	0.97	0.65	0.64	1.41	1.07

SOURCE: Congressional Budget Office from Table 1 and Appendix Table A-1 (lower panel).

NOTE: Uses savings and baseline estimates made at the time of enactment for the subsequent three years. Negative values for percent of base indicate net costs rather than savings. Except for the percent of base column, averages are weighted by the percents in that column. Only the benefit expansion associated with the blood deductible is shown for legislation in 1988 because other new Medicare benefits enacted in 1988 were repealed.

Table 2 compares the share of total savings from each service category with the share of disbursements accounted for by that category in the year of enactment. For example, 51.6 percent of savings under the 1981 bill came from the hospital inpatient category (Table 1), which accounted for 65.3 percent of Medicare disbursements in 1981 (Appendix Table A-1). Thus, this category's share of savings in the 1981 bill was small relative to its share of spending in that year; the ratio of the two shares is 0.79 (or 51.6/65.3). In 1982, the hospital inpatient sector accounted for a disproportionately large share of savings (1.27 or 82.6/64.9). Because there were small net costs under the 1983 legislation (before allowing for offsetting receipts provided under the bill), the large ratio value for the inpatient sector in that year indicates that it accounted for a disproportionate share of the additional costs.

On average over the nine years from 1981 through 1989, the share of savings from the hospital inpatient sector was small relative to its share of spending (with a ratio value of .93), while the share of savings from the physician sector was disproportionately large (1.18). The hospital outpatient sector accounted for the largest share of savings relative to its share of disbursements (1.38) on average over the nine years, although most of this occurred under the 1981 bill that altered payment provisions for renal dialysis.

#### ESTIMATED IMPACT USING PROJECTION OF PRE-1981 TRENDS

Table 3 presents an alternative measure of the impact of legislation enacted since 1980. It compares real spending per enrollee for fiscal year 1988 with what spending would have been had the growth trend experienced between 1975 and 1981 continued through 1988.

The years from 1975 through 1981 were used to generate the growth trend because there were no major changes in payment or coverage provisions during this period. Just prior to this period, significant changes were made--including extension of coverage to the disabled population and implementation of a cost-based limit on growth in Medicare's payment rates for physicians. Just after this period many cost-cutting provisions were put in place, beginning with those contained in the 1981 budget reconciliation act and implemented in 1982.

1988 was selected as the final year for the comparison of actual spending to what would have been

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**TABLE 3. COMPARISON OF ACTUAL AND PRE-1981 TREND VALUE FOR REAL DISBURSEMENTS PER ENROLLEE IN 1988**  
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	Total Medicare	Admin	Total Benefits	Hospital Inpatient	SNF	MH & Hospice	Hospital Outpatient	Physician & Lab
<b>Average Growth Rates</b>								
1975-1981	7.7%	0.2%	8.0%	7.2%	-2.6%	15.6%	14.8%	9.2%
1981-1988	4.9%	1.1%	5.0%	2.5%	1.8%	8.5%	10.0%	9.3%
<b>1988 Disbursements</b>								
Actual	2960	67	2893	1636	24	80	221	931
Trend	3562	63	3525	2237	18	126	299	925
<b>Ratio of Actual to Trend</b>								
	83.1%	106.4%	82.1%	73.1%	136.8%	64.1%	73.9%	100.6%

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 SOURCE: Congressional Budget Office from Appendix Table A-2.  
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spent had the 1975-1981 trend continued because spending for 1989 was affected by the new benefits briefly provided under the MCCA. Actual spending for fiscal year 1990 is not yet known and it, too, will be affected by the MCCA benefits that were available only during calendar year 1989.

The average annual growth rate in real spending per enrollee under Medicare during the period from 1975 through 1981 was 7.7 percent. During the subsequent years through 1988, annual growth was only 4.9 percent. Growth rates fell most sharply for hospital inpatient costs, although they also fell for home health and hospital outpatient costs. The decline in spending for skilled nursing (SNF) services that occurred during the 1975-1981 period was reversed in the 1980s due apparently to (court-induced) relaxation of the definition of covered care. Growth rates for physicians' costs were virtually unchanged between the two periods, despite the disproportionately large cuts made for them in the annual budget reconciliation bills.

If the growth rate observed from 1975 through 1981 had continued through 1988, Medicare spending per enrollee for 1988 would have been \$3,562 (in 1990 dollars). Actual spending was \$2,960, only 83 percent of projected spending under the previous trend. Actual hospital inpatient and outpatient costs per enrollee were less than 74 percent of their trend values, while home health costs were 64 percent of the trend value. Actual SNF costs were 137 percent of the trend value, and actual physicians' costs were virtually identical to the trend value.

Hence, spending for physicians' services has not slowed relative to the previous trend despite the disproportionate impact on physicians of budget reconciliation bills intended to extract savings from Medicare. (The bottom lines in Table 1 and Table 2 show the average impact of legislation for 1981-1987, the period comparable to that examined in this section.) Apparently, growth in the volume of physicians' services has accelerated by enough to offset the effects of the payment reductions enacted. This growth in volume probably reflects advances in technology that enable physicians to serve their patients better, as well as growth in the supply of physicians. It may also be that CBO's estimates did not adequately allow for offsetting

increases in volume induced by Medicare's payment reductions.<sup>2</sup>

By contrast, spending for hospital inpatient services has slowed significantly, and it seems likely that legislation has played a large role in this. With implementation in 1984 of Medicare's prospective payment system and peer review of admissions, admission rates among the Medicare population began to decline, reversing the previous trend. This, together with limited increases in payment rates per admission, has reduced inpatient costs relative to the previous trend. Costs in hospital outpatient departments have also been reduced relative to the previous trend, indicating that hospital inpatient costs have not simply been shifted to the outpatient sector.

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2. CBO currently assumes that about half of the potential savings from limits on payment rates for physicians' services under Medicare will be offset by increases in the volume of services, due to behavioral responses by physicians and their patients. In some earlier years, the offset assumed was smaller.

APPENDIX TABLE A-1. MEDICARE DISBURSEMENTS BY SERVICE CATEGORY

Fiscal Year	Total Medicare	Admin	Total Benefits	Hospital Inpatient	SNF	NH & Hospice	Hospital Outpatient	Physician & Lab
1975	14782	664	14118	9947	273	207	530	3161
1976	17779	840	16939	11742	308	312	745	3832
1977	21549	776	20773	14266	351	406	988	4762
1978	25218	955	24263	16697	353	498	1230	5485
1979	29157	1007	28150	19091	363	592	1496	6608
1980	35024	1090	33934	22864	387	726	1847	8110
1981	42488	1236	41252	27764	428	914	2248	9898
1982	50424	1275	49149	32720	462	1177	2916	11874
1983	56935	1346	55589	36075	511	1538	3346	14119
1984	62481	1532	60949	39097	536	1868	3534	15914
1985	71384	1735	69649	45140	570	2184	3903	17852
1986	75903	1716	74187	46206	582	2277	4922	20200
1987	81640	1736	79904	46994	623	2398	5780	24109
1988	87676	1972	85704	48951	720	2407	6456	27170
1989	96454	2154	94300	52586	2193	2702	7329	29490

IN MILLIONS OF DOLLARS

PERCENT DISTRIBUTION BY SERVICE CATEGORY

1975	100.0%	4.5%	95.5%	67.3%	1.8%	1.4%	3.6%	21.4%
1976	100.0%	4.7%	95.3%	66.0%	1.7%	1.8%	4.2%	21.6%
1977	100.0%	3.6%	96.4%	66.2%	1.6%	1.9%	4.6%	22.1%
1978	100.0%	3.8%	96.2%	66.2%	1.4%	2.0%	4.9%	21.8%
1979	100.0%	3.5%	96.5%	65.5%	1.2%	2.0%	5.1%	22.7%
1980	100.0%	3.1%	96.9%	65.3%	1.1%	2.1%	5.3%	23.2%
1981	100.0%	2.9%	97.1%	65.3%	1.0%	2.2%	5.3%	23.3%
1982	100.0%	2.5%	97.5%	64.9%	0.9%	2.3%	5.8%	23.5%
1983	100.0%	2.4%	97.6%	63.4%	0.9%	2.7%	5.9%	24.8%
1984	100.0%	2.5%	97.5%	62.6%	0.9%	3.0%	5.7%	25.5%
1985	100.0%	2.4%	97.6%	63.2%	0.8%	3.1%	5.5%	25.0%
1986	100.0%	2.3%	97.7%	60.9%	0.8%	3.0%	6.5%	26.6%
1987	100.0%	2.1%	97.9%	57.6%	0.8%	2.9%	7.1%	29.5%
1988	100.0%	2.2%	97.8%	55.8%	0.8%	2.7%	7.4%	31.0%
1989	100.0%	2.2%	97.8%	54.5%	2.3%	2.8%	7.6%	30.6%

SOURCE: Congressional Budget Office from data provided by the Health Care Financing Administration.



APPENDIX TABLE A-2. REAL MEDICARE DISBURSEMENTS PER ENROLLEE BY SERVICE CATEGORY

Fiscal Year	Total Medicare	Admin	Total Benefits	Hospital Inpatient	SNF	HM & Hospice	Hospital Outpatient	Physician & Lab
IN 1990 DOLLARS PER ENROLLEE								
1975	1355	61	1294	904	25	19	50	296
1976	1481	71	1411	970	25	26	63	326
1977	1637	59	1577	1074	26	31	77	369
1978	1744	66	1678	1146	24	34	87	387
1979	1811	63	1748	1176	22	37	95	418
1980	1954	61	1893	1266	21	40	105	460
1981	2117	62	2055	1373	21	45	114	501
1982	2300	59	2242	1482	21	53	135	550
1983	2449	58	2391	1542	22	66	146	616
1984	2554	63	2491	1588	22	76	146	659
1985	2775	68	2707	1744	22	84	154	703
1986	2817	64	2753	1703	21	84	185	760
1987	2886	62	2824	1648	22	84	207	864
1988	2960	67	2893	1636	24	80	221	931
1989	3079	69	3010	1672	70	86	235	947

ANNUAL RATE OF GROWTH

1975	--	--	--	--	--	--	--	--
1976	9.3%	14.9%	9.1%	7.3%	2.6%	36.7%	27.5%	10.0%
1977	10.5%	-15.8%	11.8%	10.7%	3.9%	18.6%	20.9%	13.3%
1978	6.6%	11.8%	6.4%	6.6%	-8.4%	11.7%	13.2%	4.8%
1979	3.8%	-5.3%	4.2%	2.7%	-7.7%	6.7%	9.1%	8.1%
1980	7.9%	-2.8%	8.3%	7.6%	-4.2%	10.2%	10.8%	10.1%
1981	8.3%	1.6%	8.5%	8.5%	-1.2%	12.3%	8.6%	8.9%
1982	8.7%	-5.8%	9.1%	7.9%	-1.1%	17.4%	18.8%	9.9%
1983	6.5%	-0.5%	6.7%	4.0%	4.3%	23.3%	8.0%	12.0%
1984	4.3%	8.0%	4.2%	3.0%	-0.3%	15.4%	0.2%	7.0%
1985	8.7%	7.6%	8.7%	9.8%	1.2%	11.2%	5.1%	6.7%
1986	1.5%	-5.5%	1.7%	-2.4%	-2.6%	-0.6%	20.4%	8.0%
1987	2.5%	-3.9%	2.6%	-3.2%	1.8%	0.2%	11.9%	13.7%
1988	2.6%	8.8%	2.4%	-0.7%	10.2%	-4.3%	6.8%	7.8%
1989	4.0%	2.9%	4.0%	2.2%	189.7%	6.7%	6.4%	1.7%

SOURCE: Congressional Budget Office from data provided by the Health Care Financing Administration. The implicit price deflator for gross national product was used to obtain constant dollars.