

**Comparison of Projected Enrollment in Medicare Advantage Plans and
Subsidies for Extra Benefits Not Covered by Medicare
Under Current Law and Under the Patient Protection and Affordable Care Act**

Current Law

Under current law, CBO projects that the number of Medicare beneficiaries enrolled in Medicare Advantage plans will grow from 10.6 million in 2009 to 13.9 million in 2019. We also project that the amount by which payments to those plans will exceed their bids will grow from an average of \$87 per member per month in 2009 to \$135 per member per month in 2019. Medicare Advantage plans use those additional payments to provide their enrollees with extra benefits that are not covered by Medicare: either health care services, such as vision care or dental care, or subsidies of beneficiaries' out-of-pocket costs for Part B or Part D premiums or cost sharing for Medicare-covered benefits. CBO does not have a basis for projecting the distribution of additional benefits among those categories.

The “rebate”—that is, the amount of the subsidy that plans receive to provide extra benefits—depends on the difference between the plan's bid and a benchmark that is set using a formula. The benchmarks currently range from about 100 percent to over 150 percent of local per capita spending in the fee-for-service (FFS) sector. The difference between bids and benchmarks tends to be largest in areas where plans are able to provide Medicare-covered services for less than the average cost per enrollee in the FFS sector. If the plan's bid is below the benchmark, Medicare pays the plan 75 percent of the difference between the bid and benchmark to subsidize extra benefits not covered by Medicare. On average, CBO projects that rebates to plans in areas with bids that currently are below FFS costs will average \$172 per member per month in 2019. By contrast, CBO projects that rebates to plans in areas where bids are above FFS costs will average \$98 per member per month in 2019 (see attached table).

Patient Protection and Affordable Care Act (PPACA)

The legislation would set benchmarks equal to the average of local plan bids, rather than tying them to fee-for-service spending. Similar to current law, a plan that bids above the new benchmark would be required to charge the difference to its enrollees. A plan that bids below the benchmark would receive a rebate of the entire difference, which it would be required to pass through to its enrollees in the form of health care services not covered by Medicare or reduced cost sharing. (Plans could no longer use the rebates to subsidize Part B or Part D premiums.) In addition, the legislation would require Medicare to pay additional rebates to plans that serve beneficiaries who were enrolled in the plan on the date of enactment of the PPACA and to make additional payments to plans that achieve certain quality ratings. Plans would use those additional payments to provide additional extra benefits.

CBO estimates that policy would reduce federal spending by \$105 billion over the 2010-2019 period. (A reduction in gross Medicare spending of \$118 billion would be offset, in part, by a \$13 billion reduction in Part B premium receipts.) Nationwide, the average value of the extra benefits not covered by Medicare (that is, rebates plus additional payments) would be about \$49 per member per month in 2019. That average would be about \$47 in areas with bids currently above FFS costs and \$51 in areas with bids below FFS costs. CBO estimates that enrollment in Medicare Advantage plans in 2019 would be 2.6 million lower than under current law, with most of those reductions (2.0 million) occurring in areas where bids currently are below FFS costs.

Estimated Effects of the Medicare Advantage (MA) Provisions of the Patient Protection and Affordable Care Act on Enrollment in MA Plans and on Federal Subsidies for Enrollees in MA Plans of Benefits Not Covered by Medicare

Under Current Law

	Enrollment in MA Plans (millions)		Average Subsidy of Extra Benefits Not Covered by Medicare (dollars per month)	
	2009	2019	2009	2019
All Areas	10.6	13.9	87	135
Areas with Bids that Average Less than 100 Percent of Spending Per Beneficiary in the Fee-for-Service Sector	4.7	6.9	120	172
Areas with Bids that Average More than 100 Percent of Spending Per Beneficiary in the Fee-for-Service Sector	5.9	7.0	61	98

Under the Patient Protection and Affordable Care Act

	Reduction in Enrollment in MA Plans, 2019		Net Reduction in Medicare Spending 2010-2019	Average Subsidy of Extra Benefits Not Covered by Medicare, 2019
	Percent	Millions	Billions of Dollars	Dollars Per Month
All Areas	-18	-2.6	-105 ^a	49
Areas with Bids that Average Less than 100 Percent of Spending Per Beneficiary in the Fee-for-Service Sector	-29	-2.0	-62	51
Areas with Bids that Average More than 100 Percent of Spending Per Beneficiary in the Fee-for-Service Sector	-9	-0.6	-43	47

Note: Under current law, extra benefits include health care services not covered by Medicare, such as vision care and dental care, and subsidies of beneficiaries' out-of-pocket costs for Part B or Part D premiums or cost sharing for Medicare-covered benefits.

Under the Patient Protection and Affordable Care Act, extra benefits would include health care services not covered by Medicare and subsidies of beneficiaries' out-of-pocket costs for cost sharing for Medicare-covered benefits.

- a. The estimate of a \$105 billion net reduction in Medicare spending over the 2010-2019 period reflects a \$118 billion reduction in Medicare payments that would be offset, in part, by a \$13 billion reduction in Part B premium receipts.