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

Douglas W. Elmendorf, Director

February 27, 2014

Honorable Fred Upton
Chairman
Committee on Energy
and Commerce
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This letter responds to the request from you and Congressman Waxman for a cost estimate for H.R. 4015, the SGR Repeal and Medicare Provider Payment Modernization Act of 2014, as introduced on February 6, 2014. (An identical bill, S. 2000, was introduced in the Senate.)

H.R. 4015 would replace the Sustainable Growth Rate (SGR) formula, which determines the annual updates to payment rates for physicians' services in Medicare, with new systems for establishing those payment rates. CBO estimates that enacting H.R. 4015 would increase direct spending by about $138 billion over the 2014-2024 period, as shown in the following table. This estimate is relative to the CBO's February 2014 baseline projections of spending under current law. (The legislation would not affect federal revenues or spending subject to appropriation.) The costs of this legislation fall within budget functions 570 (Medicare) and 550 (health).

| | By Fiscal Year, in Billions of Dollars | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2014-2019 | 2014-2024 |
| **CHANGES IN DIRECT SPENDING** | | | | | | | | | | | | | |
| Estimated Budget Authority | 5.3 | 10.6 | 11.2 | 10.7 | 10.7 | 11.7 | 13.4 | 14.7 | 16.6 | 17.4 | 16.1 | 60.2 | 138.4 |
| Estimated Outlays | 5.3 | 10.6 | 11.2 | 10.7 | 10.7 | 11.7 | 13.4 | 14.7 | 16.6 | 17.4 | 16.1 | 60.2 | 138.4 |

**Background and Summary of the Bill's Provisions**

Medicare compensates physicians for services they provide on the basis of a fee schedule that specifies a payment rate for each type of covered service. The SGR formula determines the annual update to these payment rates. Under current law, Medicare's payment rates for physicians' services are slated to drop by about 24 percent in April 2014. Under that formula, CBO projects those payment rates will increase by small amounts in most subsequent years but will remain below current levels throughout the next 10 years. The Bipartisan Budget Act of 2013 (Public Law 113-67) provided a temporary increase of one-half percent in payment rates for services on the physician fee schedule that are furnished from January through March of 2014.

H.R. 4015 would replace the SGR with new payment systems over the next several years. The major provisions of the new payment systems specified in H.R. 4015 are as follows:

- The bill would maintain payment rates at the current level for services on the physician fee schedule for the rest of calendar year 2014 and increase Medicare's payment rates for services on the physician fee schedule by 0.5 percent a year for services furnished during calendar years 2015 through 2018.

- Payment rates for services on the physician fee schedule would remain at the 2018 level through 2023, but the amounts paid to individual providers would be subject to adjustment through one of two mechanisms, depending on whether the physician chose to participate in a Merit-Based Incentive Payment System (MIPS) or an Alternative Payment Model (APM) program.

- For 2024 and subsequent years, there would be two payment rates for services on the physician fee schedule. For providers paid through the MIPS program, payment rates would be increased each year by 0.5 percent. For providers paid through an APM, payment rates would be increased each year by 1 percent.

- Payments to providers who participate in the MIPS program would be subject to positive or negative performance adjustments. Those adjustments would be designed to be offsetting in aggregate, so that they would have no net effect on overall payments. The performance adjustment for an individual provider would depend on that provider's performance compared to a performance threshold. In addition, H.R. 4015 would provide $500 million each year from 2018 to 2023 for an additional performance adjustment for providers achieving exceptional performance.

- Payments to providers who participate in an APM program (in particular, those who receive a substantial portion of their revenue from alternative payment models) would receive, from 2018 through 2023, a lump-sum payment equal to 5 percent of their Medicare payments in the prior year for services paid according to the physician fee schedule. Providers with revenue close to the APM revenue threshold would receive either no adjustment to their Medicare payments or the MIPS performance adjustment if they reported measures and activities in that program. Providers would not be eligible for a lump-sum payment in 2024. (The APM mechanism in H.R. 4015 is the same as that in H.R. 2810, the SGR Repeal and Medicare Beneficiary Access Act of 2013, as reported by the Committee on Finance; further descriptions of the APM program can be found in CBO's cost estimate for that legislation.[1])

- In addition, H.R. 4015 would eliminate current-law penalties for providers who do not achieve meaningful use of electronic health records (EHR) or satisfactorily report data on quality. However, physicians would have to meet standards for use of EHR and quality as part of the MIPS program. Also, the bill would modify payment rates in certain California counties, adjust relative value units for certain physicians' services, and require the development of payment codes that would encourage care coordination and the use of medical homes.

**Budgetary Effects**

CBO estimates that enacting H.R. 4015 would increase direct spending by about $60 billion over the 2014-2019 period and by approximately $138 billion over the 2014-2024 period, assuming enactment this spring. Nearly all of the estimated increase in spending would stem from the specified updates to rates for services paid on the physician fee schedule. In addition, CBO estimates that establishing the MIPS and APM programs, with the opportunity for providers to choose to participate in only one of the programs, would increase Medicare spending by approximately $6 billion through 2024. That estimate largely reflects CBO's expectation that providers would choose the program that is most attractive financially for themselves.

CBO's estimate of the budgetary effects of the legislation incorporates the effects of changes in Medicare spending for services furnished in the fee-for-service sector on payments to Medicare Advantage plans, on receipts of premiums paid by beneficiaries, on the likelihood that the Independent Payment Advisory Board mechanism would be triggered, and on spending by the Department of Defense's TRICARE program. Discussions of those interactions can be found in the cost estimate for H.R. 2810.

[1] See http://www.cbo.gov/publication/45040

**Previous CBO Estimates**

The estimated costs for H.R. 4015 are measured relative to CBO's February 2014 baseline, which extends through 2024. In its cost estimates for three prior versions of this legislation—H.R. 2810 as ordered reported by both the Committee on Energy and Commerce and the Committee Ways and Means and S. 1871 as reported by the Committee on Finance—CBO estimated costs relative to its May 2013 baseline, as adjusted for the effects of legislation enacted after that baseline was completed and of the final rule that specified the update in the physician fee schedule for 2014. In addition, CBO's May 2013 baseline projections extended through only fiscal year 2023, whereas the February 2014 baseline encompasses the 2014-2024 period.

On September 13, 2013, CBO estimated that enacting H.R. 2810, the Medicare Patient Access and Quality Improvement Act of 2013, as ordered reported by the House Committee on Energy and Commerce on July 31, 2013, would cost about $175 billion over the 2014-2023 period. We subsequently reduced that estimate to $146 billion, reflecting the subsequent legislation and final rule noted above.

On January 24, 2014, CBO transmitted a cost estimate for H.R. 2810, the SGR Repeal and Medicare Beneficiary Access Act of 2013, as ordered reported by the House Committee on Ways and Means on December 12, 2013. CBO estimated that enacting that version of H.R. 2810 would increase direct spending by about $121 billion over the 2014-2023 period.

Also on January 24, 2014, CBO transmitted a cost estimate for S. 1871, the SGR Repeal and Medicare Beneficiary Improvement Act of 2013, as reported by the Senate Committee on Finance. CBO estimated that enacting title I of S. 1871 would increase direct spending by about $112 billion over the 2014-2023 period.

The estimate for H.R. 4015 includes a cost of $16 billion in fiscal year 2024, whereas the previous estimates only included costs for the 2014-2023 period. Over the 2014-2023 period, the differences in estimated costs largely reflect differences in the updates for payment rates specified by each bill.

On February 27, 2014, CBO transmitted a cost estimate for S. 2000 to the Senate Committee on Finance. The texts of S. 2000 and H.R. 4015 are identical, as are CBO's estimates for the two bills.

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

Sincerely,

for Robert A. Sussman

Douglas W. Elmendorf
Director

cc: Honorable Henry A. Waxman
Ranking Member

Honorable Michael C. Burgess

Identical letter sent to the Honorable Dave Camp.