

Scoring of Proposed Changes to the Independent Payment Advisory Board Mechanism

The Patient Protection and Affordable Care Act (PPACA, Public Law 111-148) created the Independent Payment Advisory Board (IPAB), which has the obligation to reduce Medicare spending relative to what otherwise would occur if the rate of growth in spending per beneficiary is projected to exceed a target rate that is based on inflation (for 2015 to 2019) or growth in the economy (for 2020 and subsequent years). Each year, beginning in the spring of 2013, the law requires the Chief Actuary of the Centers for Medicare and Medicaid Services (CMS) to project two numbers, each of which is a five-year moving average for the period ending two years in the future:

- The rate of change in net Medicare spending per beneficiary (that is, gross Medicare spending less enrollees' payments for premiums), and
- The rate of change in an economic measure—which is
 - The average of the CPI-U and CPI-M¹ for five-year periods ending in 2015 through 2019, and
 - GDP per capita plus 1 percentage point for five-year periods ending in 2020 and subsequent years.

The Chief Actuary of CMS will compare those two values, and if the spending measure is larger than the economic measure, the difference will be used to determine the IPAB's savings target for the last year of the five-year period.

The estimates of Medicare spending in CBO's March 2011 baseline and the economic projections that underlie that baseline result in a spending measure that is below the economic measure in each target year (that is, in the last year of each five-year period):

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Spending Measure	2.0%	2.0%	2.4%	2.8%	3.1%	3.7%	3.9%
Economic Measure	<u>2.6%</u>	<u>2.8%</u>	<u>3.1%</u>	<u>3.2%</u>	<u>3.3%</u>	<u>4.8%</u>	<u>4.6%</u>
Difference	-0.6%	-0.8%	-0.7%	-0.4%	-0.2%	-1.1%	-0.7%

The point estimates in CBO's baseline projections, therefore, result in a projected savings target of zero in every year through 2021.

¹ The CPI-U is the consumer price index for all urban consumers and the CPI-M is the medical care category of the CPI-U. The medical care category is one of eight major expenditure groups that make up the CPI-U (see <http://www.bls.gov/cpi/cpifact4.htm>).

The IPAB mechanism, however, is essentially a one-sided bet: The resulting target can be only zero or savings; the IPAB cannot be instructed to increase spending. So variations in those measures might lead to additional savings but could not lead to added costs.

In fact, the difference between the spending measure and the economic measure in each year that the Chief Actuary makes an IPAB determination will probably not be equal to the difference that CBO currently projects. If the Chief Actuary ends up projecting some combination of a higher spending measure or a lower economic measure than CBO currently projects, the savings target for the IPAB mechanism could exceed zero.

Because of the one-sided nature of the budgetary impact of variations in the spending and economic measures that determine IPAB's savings target, it is important to consider the probability associated with such variations when assessing the effects of possible changes in law. To assess the probability of the IPAB mechanism being triggered, CBO analyzed the technical component of changes in its recent baseline projections of Medicare spending.² It concluded that there is a two-thirds probability that the amount of spending in five years will differ from the agency's current projection by less than 2 percent as a result of technical factors.³ (Thus, there is a one-third probability that the amount of spending in five years would differ by more than 2 percent as a result of such factors.) The uncertainty regarding the five-year moving average of the rate of growth in net Medicare spending per beneficiary is approximately one-fifth of the uncertainty concerning the amount of Medicare spending in the fifth year.

To produce estimates for potential legislative changes to the IPAB mechanism that take into account the probability of variations in the relevant measures, CBO will apply that probability distribution to its point estimates of the five-year moving average of net Medicare spending per beneficiary to calculate an expected value for the IPAB's savings target under both current law and with the proposed change in law. It will apply a *de minimis* rule that the target will be zero if the expected value of the savings target rounds to 0.0 percent (that is, if it is less than 0.05 percent).

The adoption of probabilistic scoring for changes to the IPAB mechanism does not affect the presentation of the effects of that mechanism in CBO's baseline. The baseline reflects

² CBO characterizes the components of changes in baseline projections as technical, economic, and legislative. This analysis of variability in projections focuses on the technical component—which largely represents unanticipated changes in the utilization of health care services—because the economic components are expected to have similar, and largely offsetting, effects on the spending and economic measures whose difference determines the IPAB's savings targets. The analysis excludes the legislative component of changes in CBO's baseline projections because the baseline reflects current law and does not anticipate future legislative changes.

³ The total uncertainty around CBO's projections of Medicare spending—taking into account the economic and legislative components of changes in those projections—would be considerably larger.

the agency's current best judgment of the likely level of spending under current law; if the IPAB mechanism is triggered, that outcome probably will result from spending that exceeds CBO's current projections.

Following this logic, complete repeal of the IPAB mechanism would have a budgetary cost. After application of the *de minimis* rule, the expected value of the IPAB's savings target would be zero in all years of the budget window except 2018 and 2019, when it would be about 0.1 percent. In addition, CBO anticipates that, if the IPAB mechanism was triggered, some of the savings in the target year would compound and produce savings in subsequent years. As a result, CBO estimates that repealing the IPAB mechanism would increase Medicare spending each year from 2018 through 2021, with the expected value of the increase in spending totaling \$2.4 billion over that period.