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DRAFT Recommendations Regarding the "Illustrative Alternative"

FOR DISCUSSION ONLY

The Trustees report presents a set of alternative projections that demonstrate the implications for future spending of not fully implementing three aspects of current law: "(i) the reductions in payment updates by the increase in economy-side productivity for most non-physician provider categories, (ii) the physician payment updates specified by MACRA for all future years; and (iii) the operations of the Independent Payment Advisory Board."

Finding: The purpose of the illustrative alternative has changed over time from being a more accurate representation of current law to an illustration of the potential impact of changes to particular features of current law that may be unsustainable in the future. The first reference to an illustrative scenario was in the 2007 Trustees Report, which cautioned that forecasts of Part B spending under current law were likely to be underestimated due to the annual Sustainable Growth Rate (SGR) override. The SGR, a statutory method for determining the annual update to the Medicare physician fee schedule, was established as part of the Balanced Budget Act of 1997. Medicare payments to physicians were reduced by the SGR formula for the first time in 2002. In 2003 and each subsequent year, however, Congress passed legislation overriding the payment reduction. The 2007 report provided an alternative estimate, assuming the SGR reductions would continue to not be implemented, in a separate, publicly available report.[1] The alternative scenario was part of the main report for the first time in 2012. Given the consistent history of congress overriding the SGR, the assumption that SGR would be overturned was arguably a more accurate representation of current law than the current law forecast. Indeed, the forecast incorporating the SGR override was the projected baseline in the 2014 report.

In the 2015 report, after the passage of MACRA, SGR was no longer current law and the report included one illustrative alternative which assumed phasing out the productivity adjustments, repealing IPAB and phasing out MACRA. In the 2016 report, the phase-out begins in 2026 for the MACRA payment reductions, in 2020 for the productivity updates and in 2019 for IPAB.

Finding: The panel affirms the finding by the Medicare Board of Trustees in their 2016 report that, over the long term, current law will lead to large reductions in payment rates to physician and non-physician providers relative to historical trends. The panel also found that it is difficult to forecast the implications of reductions of this magnitude for the health care delivery system. While hospitals and other health care providers may innovate in ways that reduce costs while preserving the existing or an acceptable level of quality, it is also possible that payment reductions will negatively affect provider access or quality of care. While the panel did not

[1] http://www.cms.hhs.gov/ReportsTrustFunds/05_alternativePartB.asp

attempt to assess the likelihood of different outcomes, the members did agree that one possible outcome was the Congress would override one or more of these payment reductions in response to pressure from providers and/or beneficiaries. And, in that case, the current law forecast would underestimate future Medicare spending.

Recommendation: The committee recommends that the Medicare Board of Trustees continue to present one or more illustrative alternatives that forecasts Medicare spending assuming a less than full implementation of the provider payment reductions specified under current law.

[Placeholder for finding and possible recommendation/affirmation on the specific assumptions used for the illustrative alternative]

[Placeholder for finding and possible recommendation/affirmation of the number and composition of polices in the illustrative alternative]

[Placeholder for finding and possible recommendation regarding the presentation of the illustrative alternative]

Finding: The language in the Medicare trustees report makes a strong case that the payment reductions to providers specified by current law may not be sustainable. Examples include:

> *"Absent a change in the delivery system or level of update by subsequent legislation, the Trustees expect access to Medicare-participating physicians to become a significant issue in the long term under current law." (page 2)*

> *"However, if the health sector cannot transition to more efficient models of care delivery and achieve productivity commensurate with economy-wide productivity, and if the provider reimbursement rates paid by commercial insurers continue to follow the same negotiated process used to date, then the availability and quality of health care received by Medicare beneficiaries would, under current law, fall over time compared to that received by those with private insurance." (page 3)*

> *"The financial projections shown for the Medicare program in this report reflect substantial, but very uncertain, cost savings deriving from provisions of the ACA and MACRA that lower increases in Medicare payment rates to most categories of health care providers. Without fundamental change in the current delivery system, these adjustments would probably not be viable indefinitely." (page 43)*

Recommendation: The committee recommends that the trustees report contain a more balanced discussion of the sustainability of the productivity and MACRA payment reductions, perhaps building from a broader base of evidence on the likely impact.

Finding: The Medicare trustees report does not make clear the financial implications to taxpayers and the economy of projected levels of Medicare spending. The economic cost of tax-based financing is the excess burden that taxation generates. Thus, information on how the report, however, does not present estimates of the implications of the report separately analyzes the implications for Parts A and B. For Part A, the report calculates the projected depletion date of the Medicare Hospital Insurance Trust Fund. However, the projections assume that payments to providers will continue upon depletion of the Hospital Insurance Trust Fund and will be financed by tax and premium revenue. Consistent with Part A's reliance on payroll taxes, figure III.B.3. and Table III.B.7 present estimates of costs and income as a percent of taxable payroll, providing an estimate of the magnitude of the shortfall relative to aggregate payroll. For Parts B and D, which are funded primarily from general tax revenues and premiums, the report presents estimates of Part B and Part D spending, separately, as a percent of GDP. By presenting the estimates separately for each part, expressing spending relative to different bases and not directly linking spending to individual tax rates, the report does not provide a clear sense of either the aggregate impact of Medicare spending on the economy as a whole or the implications of tax-based financing for tax-payers or the economy as a whole.

Recommendation: Consider providing information on the impact of Medicare spending on marginal tax rates.