

CBO's Medicare Part D Score Revision Has Costly Implications

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The Congressional Budget Office (CBO) recently corrected a mistake. In response to an inquiry from Senator Mike Enzi, CBO disclosed that it had undervalued changes in the discount rates mandated from drug manufacturers in Medicare's Part D program by \$4.4 billion – a 53 percent increase from its original score. While corrections are to be encouraged so that lawmakers have the best possible data and analysis to evaluate policies and programs, the problem is that this correction was made without forthright disclosure. The agency has failed to live up to the standards of transparency that its Director [promised](#) repeatedly to Congress. It took prodding by the Chairman of the Senate Budget Committee to finally compel CBO to disclose that it quietly fixed a score - with costly implications.

Changes to Part D's Coverage Gap

The problem occurred in CBO's February [score](#) of the Bipartisan Budget Act of 2018 (BBA), the budget deal that eviscerated discretionary spending caps and included gimmicks that [masked its real long-term cost](#). The BBA modified the formula that determines the share of the costs for prescription drugs in what is known as the coverage gap or "donut hole" in Medicare's Part D program. Under the program's original design, as a beneficiary's expenses rose above a certain threshold, that individual would bear all the costs for medication within the coverage gap. As expenses rose further to the threshold for catastrophic coverage, beneficiaries would then bear 5 percent of the costs, the insurer's share would be 15 percent, and taxpayers subsidize the remainder through a reinsurance program.

The Affordable Care Act made changes to close the donut hole by phasing in the insurers' share of the costs to 25 percent and pharmaceutical makers' share to 50 percent. The pharmaceutical industry was required to provide a discount on the price of medication to beneficiaries in the coverage gap. The BBA accelerated the closure of the donut hole and changed the discount rate mandated from pharmaceutical manufacturers from 50 percent to 70 percent, while also reducing the insurers' cost share from 25 percent to 5 percent.

CBO's Score

[Spread over four separate documents](#), CBO's score of the BBA was challenging to navigate, and some of the cost estimates for different sections of the law were bundled together: the score for closing the donut hole was lumped together with a different provision that sunset the exclusion of biosimilar drugs from Medicare Part D's discount mandate. CBO estimated that the combined provisions would have total budgetary savings of [\\$10.1 billion](#) over ten years as the drug manufacturers shoulder a greater share of the costs within the coverage gap.

Then, on May 3, CBO replied to a series of questions for the record following up on CBO Director Keith Hall's testimony before the Senate Budget Committee. Chairman Enzi [asked](#):

It has come to my attention that shortly after passage of the Bipartisan Budget Act of 2018 CBO realized its estimate of a provision related to the Medicare Part D 'donut hole' was incorrect. Where is the correction featured in the new report? Please describe the budgetary effects of this provision of law as now incorporated in the most recent baseline.

CBO's answer helped clarify what the original score was, and explained that the revision was due to a new report by the Centers for Medicare & Medicaid Services (CMS) that its analysts had been unaware of:

When the legislation was being considered, CBO estimated that provision would reduce net Medicare spending for Part D by \$7.7 billion over the 2018–2027 period. CBO subsequently learned of a relevant analysis by the Centers for Medicare & Medicaid Services and incorporated that analysis in its projections for the April 2018 Medicare baseline. The current baseline incorporates an estimate that, compared with prior law, section 53116 will reduce net Medicare spending for Part D by \$11.8 billion over the 2018–2027 period.

On February 14, CMS released its [annual projection](#) of national health expenditures and projected that demand for specialty drugs would accelerate the rise in drug price growth. CBO subsequently, and quietly, revised its score of the Part D change upward to \$11.8 billion – a 53 percent adjustment that added \$4.4 billion to the drug manufacturers' tab.

The estimate had been revised and updated by the time CBO published its [Budget and Economic Outlook: 2018 to 2028](#) on April 9, but there was no mention, either in a footnote or otherwise, of the change made to the Part D score. Nor was the change mentioned in Director Hall's hearings on April 11 before the Senate Budget Committee or on April 18 before the House Appropriations Committee.

That's not how transparency is supposed to work. CBO has issued corrections before; for example, the agency published a [letter](#) in 2009 explaining in technical detail the revisions to a score of a manager's amendment to the Affordable Care Act. More recently, in 2016 CBO issued a [correction](#) regarding a "typographical error" in a cost estimate, so it's not just a matter of a score's magnitude that has resulted in transparent corrections.

The Impact of the Part D Change

Despite projections of lower Medicare outlays in the 10-year budget window, increasing the pharmaceutical industry's discount within the coverage gap could eventually lead to [higher overall drug prices in Part D](#) and impede research and development of new life-saving medications. Moreover, it is unclear whether beneficiaries would see much of the savings. As insurers' share of the cost is reduced, they will have little incentive to control costs while beneficiaries are in the coverage gap. Once a beneficiary's out-of-pocket spending moves into the catastrophic coverage benefit, the federal government bears 80 percent of the costs through a reinsurance program. In the long run, therefore, the Part D changes could actually harm taxpayers.

Conclusion

Now that CBO has corrected its significantly undervalued score of the discount program, lawmakers should re-evaluate the changes made by the BBA to the coverage gap and make sure that the market-based incentives within Medicare Part D are not weakened, pushing more enrollees into catastrophic coverage. The incentives that had been in place have successfully helped to control costs with Part D and should be protected.

NTUF has suggested [reforms and changes](#) to improve CBO and its cost estimates. This incident shows that the agency could also employ a more formalized process for publicly-issued corrections or clarifications. This is especially so since lawmakers frequently consult CBO for scoring guidance while crafting legislation.