



**Office of the Actuary**

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October 8, 2010

The Honorable Charles E. Grassley  
United States Senate  
135 Hart Senate Office Building  
Washington, D.C. 20510

Dear Senator Grassley:

I am writing in response to the September 24, 2010 letter from you and Senators Crapo, Hatch, and Kyl requesting the Office of the Actuary's assessment of the impact of the Patient Protection and Affordable Care Act, as amended, on Medicare Advantage plan availability and coverage levels. Following are your requests, in italics, and my responses.

- 1. Please provide copies of any and all actuarial studies or other materials prepared internally or by any third party at the request of OACT related to the health reform law's impact on Medicare Advantage (MA).*

Response: Our estimate of the impact of the Affordable Care Act on MA expenditures and enrollment is based entirely on an internal projection model that we developed for this purpose. We did not rely on any internal or external studies to estimate the impact of the legislation's MA provisions; accordingly, we do not have any actuarial studies or internally prepared materials to provide in response to this part of your request. We would be glad to discuss the data, assumptions, and methodology underlying the estimates with you or your staff if that would be helpful.

- 2. Your office estimated a 50 percent reduction in MA enrollment by 2017 as a result of the new law. Please provide further analysis estimating how much of this reduction will be the result of contract terminations and service area cutbacks.*

- a) Please provide an estimate of access to Medicare Advantage plans and beneficiary choices in rural versus urban areas as a result of the changes in the new health reform law.*

Response: Our modeling of the Affordable Care Act's effects on Medicare Advantage was restricted to the impact on Medicare expenditures and MA enrollment. We did not assess the impact that the legislation may have on contract terminations, service area cutbacks, or availability of MA plans by region.

- 3. In your analysis you note that the health reform law will result in "less generous [Medicare Advantage] benefit packages." Please provide an estimate of how much less Medicare Advantage plans will be able to spend per member per month on reduced cost-sharing and extra benefits.*

Response: The new provisions are expected to reduce MA rebates to plans and thereby result in less generous benefit packages. By law, MA plans use rebate revenues to reduce Medicare coinsurance requirements, add extra benefits such as vision or dental care that are not

otherwise covered by Medicare, and/or reduce enrollee premiums for Part B or Part D of Medicare. The following table shows the estimated impact on the average annual per capita rebates resulting from the Affordable Care Act. (The corresponding per-member, per-month effects would be one-twelfth of the annual amounts shown in the table.) Prior to this legislation, the average annual MA rebate was estimated to grow from \$1,093 in 2010 to \$1,580 in 2019. Under the new provisions, the average MA rebate is expected to decline from its current level to \$43 in 2019.

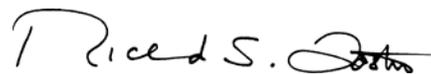
**Estimated impact of the Affordable Care Act on out-of-pocket spending for MA enrollees**  
(Estimated change in yearly per capita amount)

CY	Estimated impact on average MA rebate			Estimated impact from fee-for-service provisions	Estimated net out-of-pocket impact under ACA
	Prior-law rebate	Current-law rebate	Reduction in rebate		
2010	\$1,093	\$1,093	\$0	-\$30	-\$30
2011	\$1,143	\$684	\$459	-\$113	\$346
2012	\$1,181	\$522	\$660	-\$186	\$473
2013	\$1,240	\$399	\$841	-\$250	\$591
2014	\$1,311	\$278	\$1,034	-\$295	\$739
2015	\$1,311	\$142	\$1,169	-\$357	\$812
2016	\$1,372	\$84	\$1,288	-\$422	\$866
2017	\$1,441	\$20	\$1,421	-\$498	\$923
2018	\$1,509	\$42	\$1,468	-\$575	\$892
2019	\$1,580	\$43	\$1,537	-\$664	\$873

As indicated in the table, the reduction in MA rebates will cause a large increase in the out-of-pocket costs incurred by MA enrollees. This impact will be partially offset, however, by the effect on such costs from the Medicare fee-for-service provisions in the Affordable Care Act, which include reduced cost sharing for Medicare Parts A and B, lower Part B premiums, and the filling in of the Part D coverage gap. The estimated net effect on MA enrollee out-of-pocket costs of the reduced MA rebates and the fee-for-service provisions are shown in the last column of the table. The overall results are a decrease in beneficiary out-of-pocket spending of \$30 for 2010 and then significant increases in such costs beginning in 2011 and reaching an estimated \$873 in 2019.

I am sending corresponding letters to Senators Crapo, Hatch, and Kyl. Please let us know if you have additional questions about the estimated financial effects of the Affordable Care Act or if we can otherwise be of assistance.

Sincerely,



Richard S. Foster, F.S.A.  
Chief Actuary