DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
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CENTERS for MEDICARE & MEDICAID SERVICES

Office of the Actuary

To: Honorable Tom A. Coburn, M.D.
United States Senate

From: Richard S. Foster
Chief Actuary

Date: February 23, 2012

Subject: Patient-Centered Outcomes Research Trust Fund

On February 9, 2012, you requested an analysis of the Patient-Centered Outcomes Research Trust Fund (PCORTF). Specifically, you asked us to provide "the total amount estimated that will be transferred from the HI and SMI Trust Funds to the PCORTF." In addition, you asked whether the transfers would be made with "monies that would otherwise be spent on providing health care for beneficiaries." This memorandum responds to your request.

For fiscal years 2013 through 2019, amounts are required to be transferred from the HI and SMI trust funds to the PCORTF. The transfers equal a fixed dollar amount times the average number of individuals entitled to Part A, or enrolled under Part B. The fixed amount is $1 for 2013, $2 for 2014, and $2 updated by the estimated increase in per capita National Health Expenditures for 2015 through 2019. Based on these requirements, we have estimated that the total transfers to the PCORTF will be about $845 million. The following table shows the detailed amounts from each fund by year.

Estimated Transfers to the Patient-Centered Outcomes Research Trust Fund
[amounts in millions of dollars]

Fiscal Year	2013	2014	2015	2016	2017	2018	2019	2013-19
From HI	$25	$50	$55	$55	$60	$65	$70	$380
From SMI	25	55	60	70	75	80	90	465
Total	50	105	115	125	135	145	160	845

Note: Totals do not necessarily equal the sums of rounded components.

These transfers will affect the HI and SMI trust funds in different ways due to the nature of each fund's financing. We are currently estimating that, without legislation, the HI trust fund would be exhausted in 2024. Money transferred to the PCORTF will hasten the HI exhaustion date; however, since the amounts are relatively small, the estimated impact is less than a week. Given the significant level of uncertainty about what would happen in the highly unlikely event that Congress would actually let the HI trust fund become exhausted, it would be premature to say that these transfers would reduce benefits to beneficiaries. If, as is much more likely, Congress acts to prevent asset exhaustion, then it is reasonable to expect that financing would be adequate to cover all statutory benefit obligations. The increase in financing needed in this situation would be greater than required in the absence of the PCORTF requirements, by roughly $380 million plus the forgone trust fund interest earnings resulting from the PCORTF payments.

The SMI trust fund has two separate accounts, Part B and Part D. The nature of the financing for both parts is similar, in that the beneficiary premiums and Federal general revenues are set annually at a level that is sufficient to cover the following year's expected costs. As a result, there will always be enough funds to pay for beneficiaries' health care services. However, the PCORTF transfer amounts will necessitate an increase in the financing rates for both Parts A and B. For Part B, roughly 25 percent of the amount will be financed through beneficiary premiums, with the remaining dollars coming from Federal general revenues. Since the premium rates for Part D are determined based on prescription drug plan bids, the additional funding needed as a result of the PCORTF transfers will come entirely from general revenues. Therefore, this provision will cause an increase in premium revenue of about $90 million and an increase in general revenue funding of roughly $375 million.

I hope you find this information to be useful. Please let me know if you have any questions or if I can be of further assistance.

Richard S. Foster

Richard S. Foster, FSA, MAAA
Chief Actuary