



OFFICE OF THE ACTUARY

July 28, 2014

Dear Administrator Tavenner,

Section 1899A of the Social Security Act requires the Chief Actuary of the Centers for Medicare & Medicaid Services (CMS) to determine whether the projected 5-year average growth in per capita Medicare program spending exceeds a specified target. The 5 years to be used for a given determination year consist of the 2 prior years, the current year, and the 2 following years; for 2014, therefore, the projected 5-year average will include growth rates from 2012 through 2016. For determination year 2014, the target is equal to the average of the projected 5-year average growth, ending in 2016, in the Consumer Price Index for All Urban Consumers (all items; United States city average) and the medical care expenditure category of the Consumer Price Index for All Urban Consumers (United States city average).

If the Chief Actuary makes a determination that the projected Medicare per capita growth rate exceeds the per capita target growth rate, the Chief Actuary will establish a savings target for the implementation year, which, for the 2014 determination year, is 2016. The applicable savings target for 2016 is the product of (i) the total amount of projected Medicare program spending for 2015; and (ii) the applicable percent for 2016, which is the lesser of 1.0 percent or the difference between the projected Medicare per capita growth rate and the per capita target growth rate.

The projected 5-year average growth in Medicare per capita spending was calculated as the sum of the average per capita spending under each of Parts A, B, and D using the baseline expenditure projections from the 2014 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds (Trustees Report). For Parts B and D, the spending was net of premiums. Since the average payment update projected for physicians' services is negative for both 2015 and 2016, section 1899A(c)(6)(B)(ii) of the Social Security Act requires that the Medicare growth rate be calculated as if the update for these services were 0 percent rather than the negative percentage that would otherwise apply.

The resulting year-by-year growth rates that were used in the determination are shown in the following table. The projected 5-year average growth in Medicare per capita spending is 0.43 percent, and the 5-year average growth target is 2.61 percent. Because the projected 5-year Medicare per capita growth rate does not exceed the Medicare per capita target growth rate, there is no applicable savings target for implementation year 2016 (determination year 2014).

Calendar year	Medicare per capita growth	CPI growth	Medical CPI growth
2012	0.14%	2.07%	3.70%
2013	-0.95	1.46	2.50
2014	0.81	1.51	3.20
2015	-0.60	1.95	3.70
2016	2.77	2.18	3.80
5-year average	0.43	1.83	3.38

Note: Percentages are multiplicative, not additive. Values are carried to additional decimal places and may not correspond to the rounded values presented above.

Sincerely,

Paul Spitalnic, ASA, MAAA
Chief Actuary

cc: Honorable Sylvia M. Burwell, Secretary of Health and Human Services
Honorable John A. Boehner, Speaker of the House of Representatives
Honorable Harry M. Reid, Senate Majority Leader