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June 22, 2016

Dear Administrator Slavitt,

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 2016, therefore, the projected 5-year average will include growth rates from 2014 through 2018. For determination year 2016, the target is equal to the average of the projected 5-year average growth, ending in 2018, 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 2016 determination year, is 2018. The applicable savings target for 2018 is the product of (i) the total amount of projected Medicare program spending for 2017; and (ii) the applicable percent for 2018, which is the lesser of 1.5 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 2016 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.

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 2.21 percent, and the 5-year average growth target is 2.33 percent, which is the average of two 5-year average growth rates: 1.59 percent for the CPI and 3.08 percent for the medical CPI. 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 2018 (determination year 2016).

Calendar year	Medicare per capita growth	CPI growth	Medical CPI growth
2014	1.84%	1.62%	2.39%
2015	2.04	0.04	2.21
2016	1.79	0.86	2.04
2017	1.10	2.79	4.43
2018	4.32	2.68	4.34
5-year average	2.21	1.59	3.08

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 Paul D. Ryan, Speaker of the House of Representatives  
Honorable Mitchell McConnell, Senate Majority Leader