



Advising the Congress on Medicare issues

Reforming Medicare's benefit design

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Outline of today's presentation

- Policy objectives
- Design issues
- Illustrative benefit package
 - Distributional and budgetary effects
- Draft recommendation

Objectives for reforming Medicare's benefit design

- Reduce beneficiaries' exposure to risk of unexpectedly high out-of-pocket spending
- Require some cost sharing to discourage use of lower-value services
- Be mindful of effects on low-income beneficiaries and those in poor health

Design issues

- Cost sharing
 - Out-of-pocket maximum
 - Deductible(s) for Part A and Part B services
 - Copayments for services
- Secretarial authority to alter or eliminate cost sharing based on the value of services
- Overall cost of the benefit design
 - Hold beneficiaries aggregate cost-sharing liability equal to current law
- Supplemental insurance
 - An additional charge on supplemental insurance

Key issues that came up in previous discussions

- Deductible(s)
- Value of insurance
- Response in take-up of supplemental insurance
- Additional issues

More beneficiaries would benefit from OOP maximum over time

| Percent of full-year FFS beneficiaries | 2009 | 2006-2009 |
|--|------|-----------|
| 1+ hospitalizations | 19% | 46% |
| 2+ hospitalizations | 7% | 19% |
| \$5,000+ in annual cost-sharing liability | 6% | 13% |
| \$10,000+ in annual cost-sharing liability | 2% | 4% |

Note: Includes beneficiaries who were enrolled in FFS Medicare for 4 full years, from 2006 to 2009. Excludes those who had any months of Medicare Advantage enrollment.

Key issues that came up in previous discussions

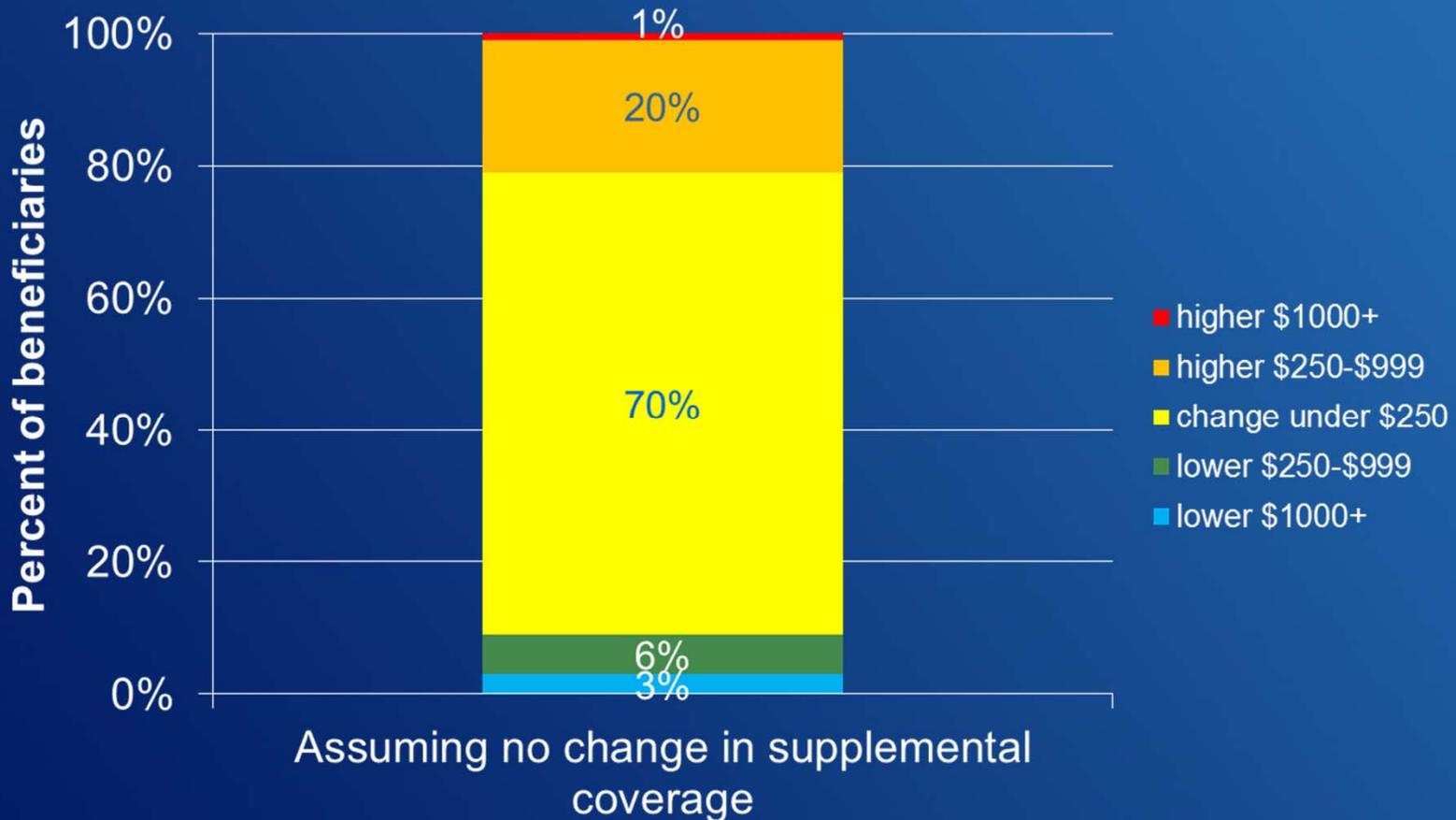
- Deductible(s)
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- Response in take-up of supplemental insurance
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Illustrative FFS benefit package

| Design elements | “Beneficiary-neutral” package |
|--|-------------------------------|
| OOP maximum | \$5000 |
| A & B deductible | \$500 |
| Hospital (per stay) | \$750 |
| Physician – PCP/specialist (per visit) | \$20/\$40 |
| Part B drugs | 20% |
| Advanced imaging (per study) | \$100 |
| Outpatient (per visit) | \$100 |
| SNF (per day) | \$80 |
| DME | 20% |
| Hospice | 0% |
| Home health (per episode) | \$150* |

Note: We modeled the \$150 copayment considered by the Commission as 5% coinsurance on home health services for simplicity. The levels of cost sharing specified in the package are for illustrative purposes only.

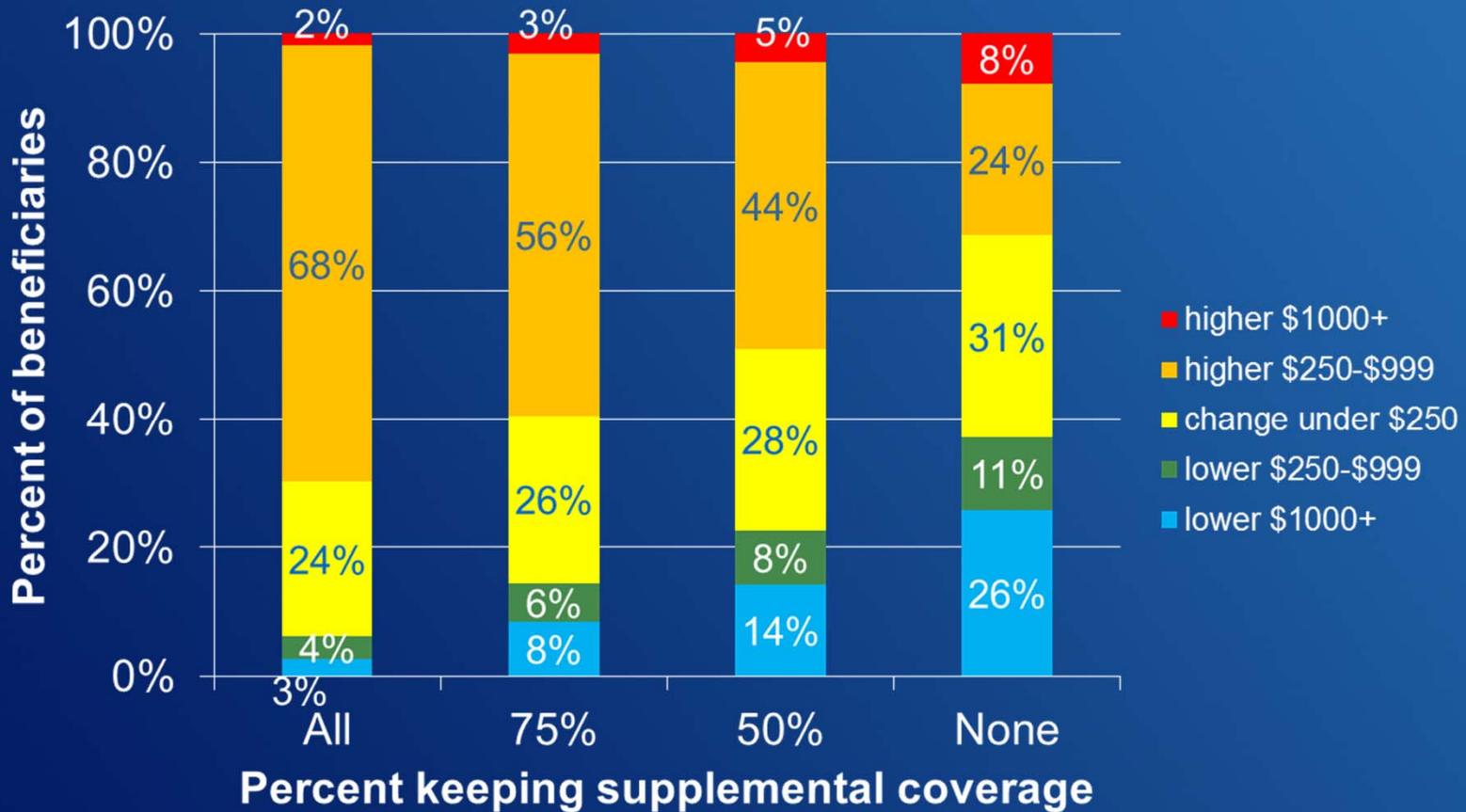
Changes in OOP spending under the illustrative package, 2009



Note: Beneficiaries included in this analysis were enrolled in both Part A and Part B for the full year and not enrolled in private Medicare plans or Medicaid. OOP spending excludes Part B premiums.

Source: MedPAC based on data from CMS.

Changes in OOP spending, supplemental premiums, and additional charge under the illustrative package, 2009



Note: Beneficiaries included in this analysis were enrolled in both Part A and Part B for the full year and not enrolled in private Medicare plans or Medicaid. OOP spending excludes Part B premiums.

Source: MedPAC based on data from CMS.

Illustrative benefit: budgetary effects

| Percent keeping supplemental coverage | Change in Medicare program spending in 2009 | 20% additional charge on supplemental insurance | Net change |
|---------------------------------------|---|---|------------|
| All | +1.0% | -1.5% | -0.5% |
| 75% | 0.0% | -1.0% | -1.0% |
| 50% | -1.5% | -0.5% | -2.0% |
| None | -4.0% | 0.0% | -4.0% |

Note: Numbers are rounded to the nearest 0.5%.

Modeling assumptions:

- 1-year snapshot of relative changes using 2009 data
- No change in the status of dual-eligible beneficiaries (Medicaid is assumed to fill in any changes under the Medicare benefit package and keep their cost sharing the same as under current law)
- Specific set of behavior assumptions on use of services
- No change in medigap premiums in response to benefit changes in the illustrative package
- On supplemental coverage, simple assumptions of average premiums and additional charges equal to 20% of average premiums