



Advising the Congress on Medicare issues

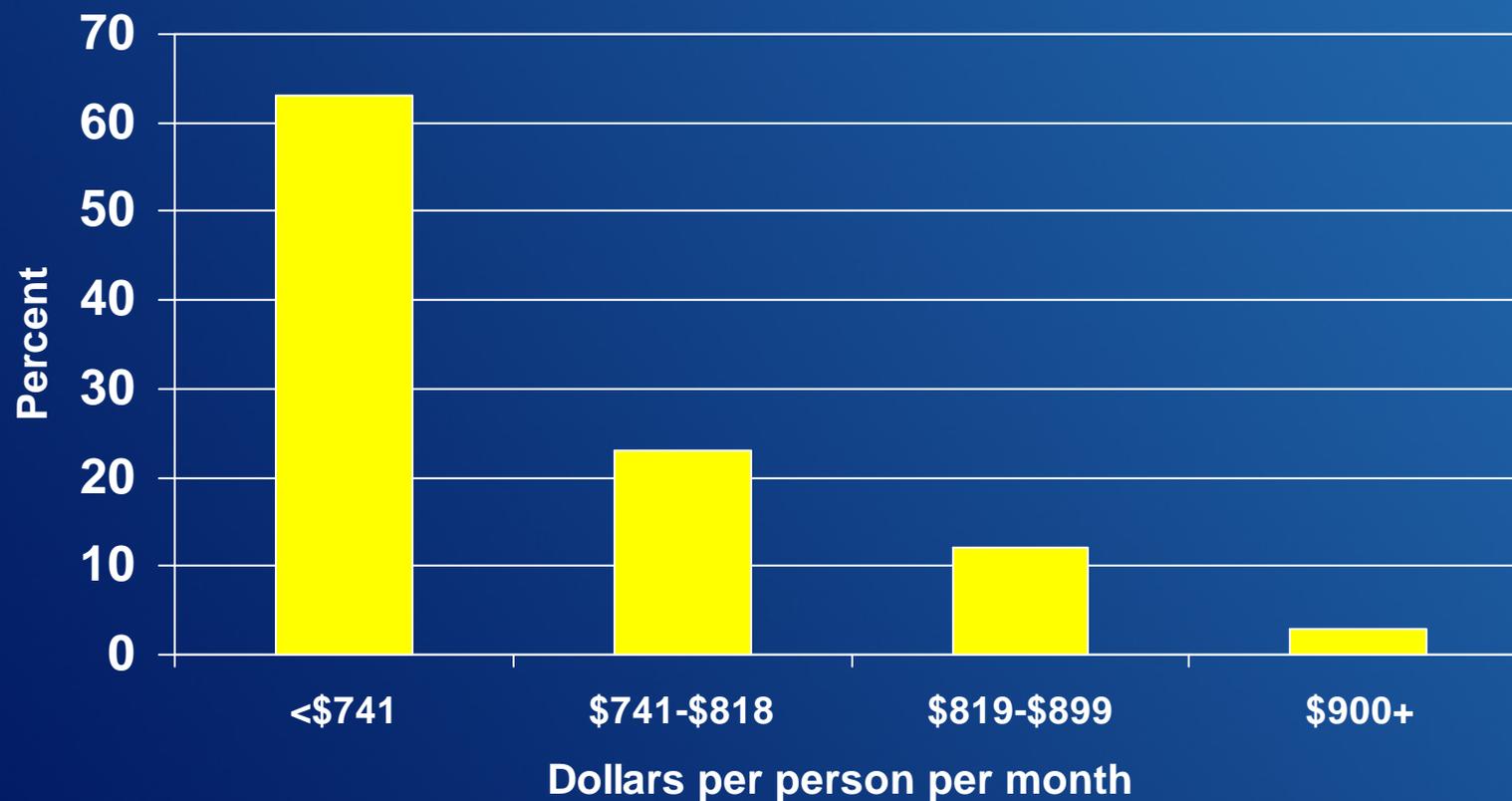
MIPPA MA payment report

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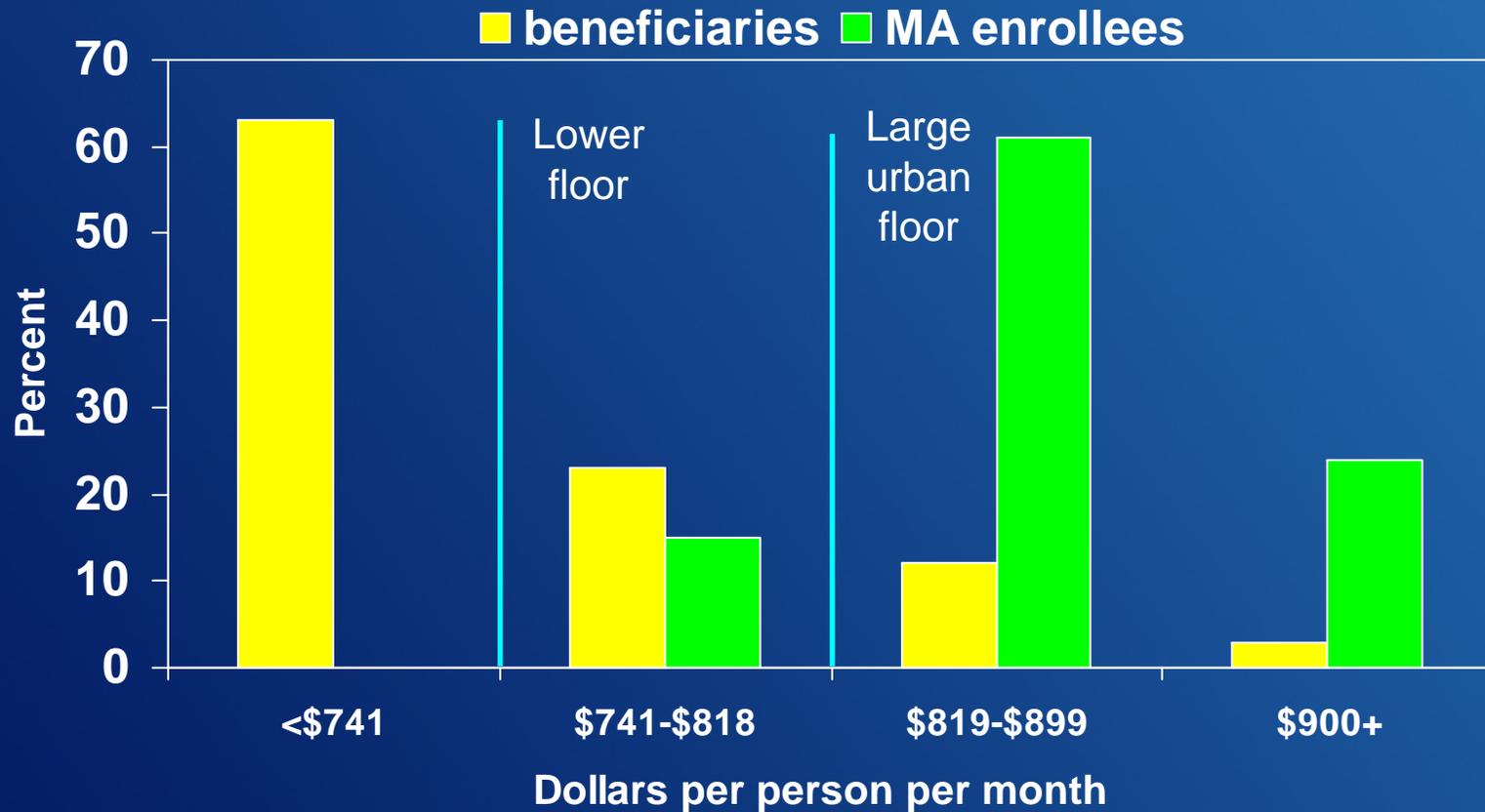
MedPAC report on MA payments

- Mandated by Section 169 of MIPPA
- Three main tasks
 1. evaluate CMS's measurement of county-level FFS spending
 2. study the correlation between MA plan costs and county FFS Medicare spending
 3. examine alternate payment approaches and make recommendations as appropriate
- Report due March 2010

Distribution of beneficiaries by FFS spending in their county of residence



Average Medicare spending higher for MA enrollees



Note: For beneficiaries; average FFS spending per person per month
For MA enrollees; benchmark dollars per person per month

CMS ranks some MA plans as high quality



Commission perspective on the MA payment system

- MedPAC has long supported private plans in Medicare
 - Plans have the flexibility to use care management techniques to improve care, unlike FFS
 - If paid appropriately, plans have incentives to be efficient
- MedPAC has recommended financial neutrality between MA and FFS

MA payment system concerns

- Payments 14 percent above FFS
- MA payment encourages inefficient plans that are not designed to coordinate care and improve quality
- Enhanced benefits are subsidized by Medicare—e.g. each \$1.00 of enhanced benefits in PFFS plans has a Medicare subsidy of \$3.26

Perspective on future MA payment system

- Options should set benchmarks at 100 percent of fee-for-service costs
 - Will restore incentive for plans to be efficient
 - CBO estimates neutrality will reduce spending by about \$150 billion over ten years
- Availability of efficient, high quality plans important goal for MA
 - Transition should encourage high quality plans
 - Possible outcome: MA payments could be higher for plans with measured quality higher than FFS

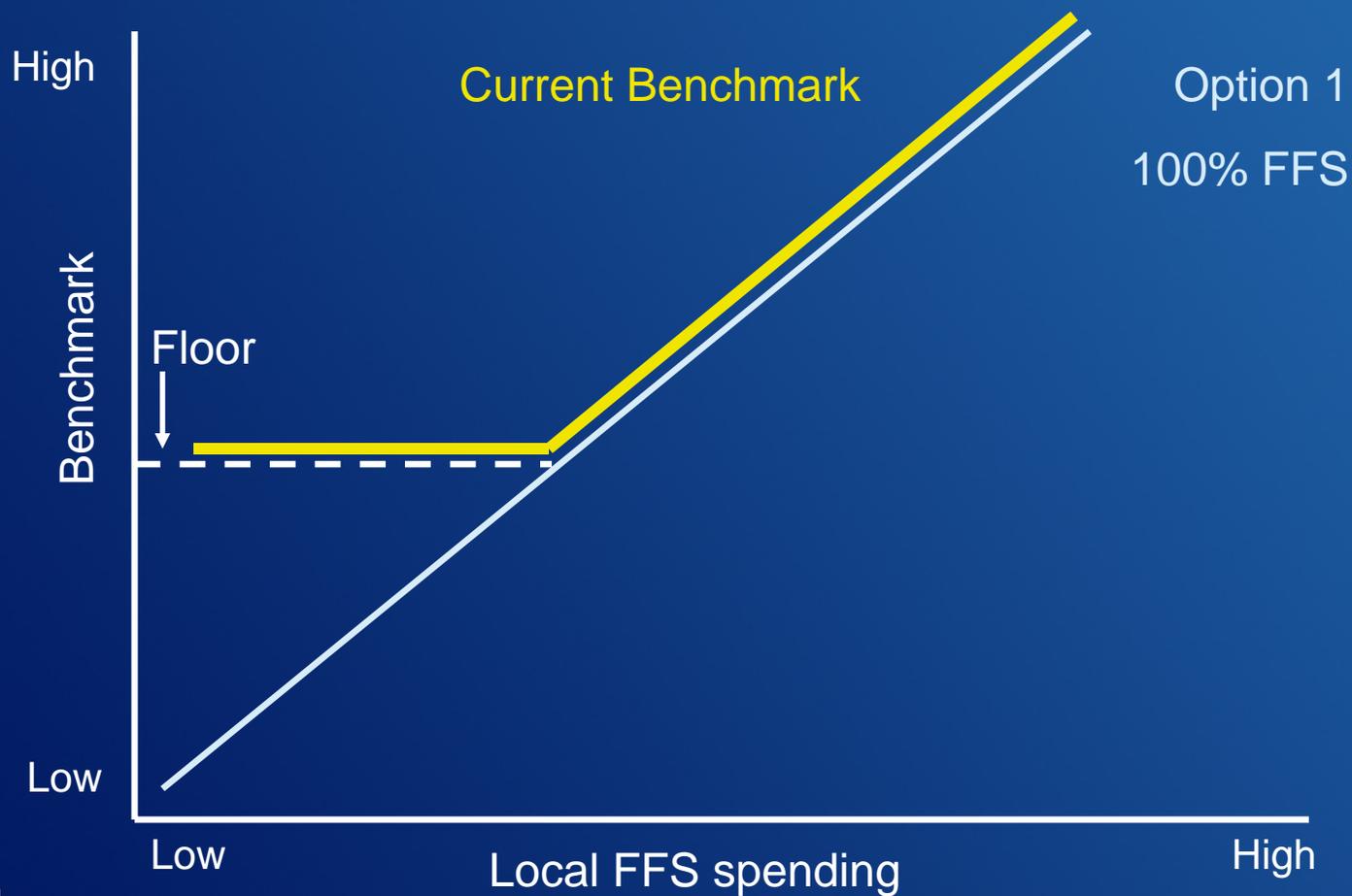
Task 3: Alternate payment approaches

- Set benchmarks administratively
- Use plan bids to set benchmarks

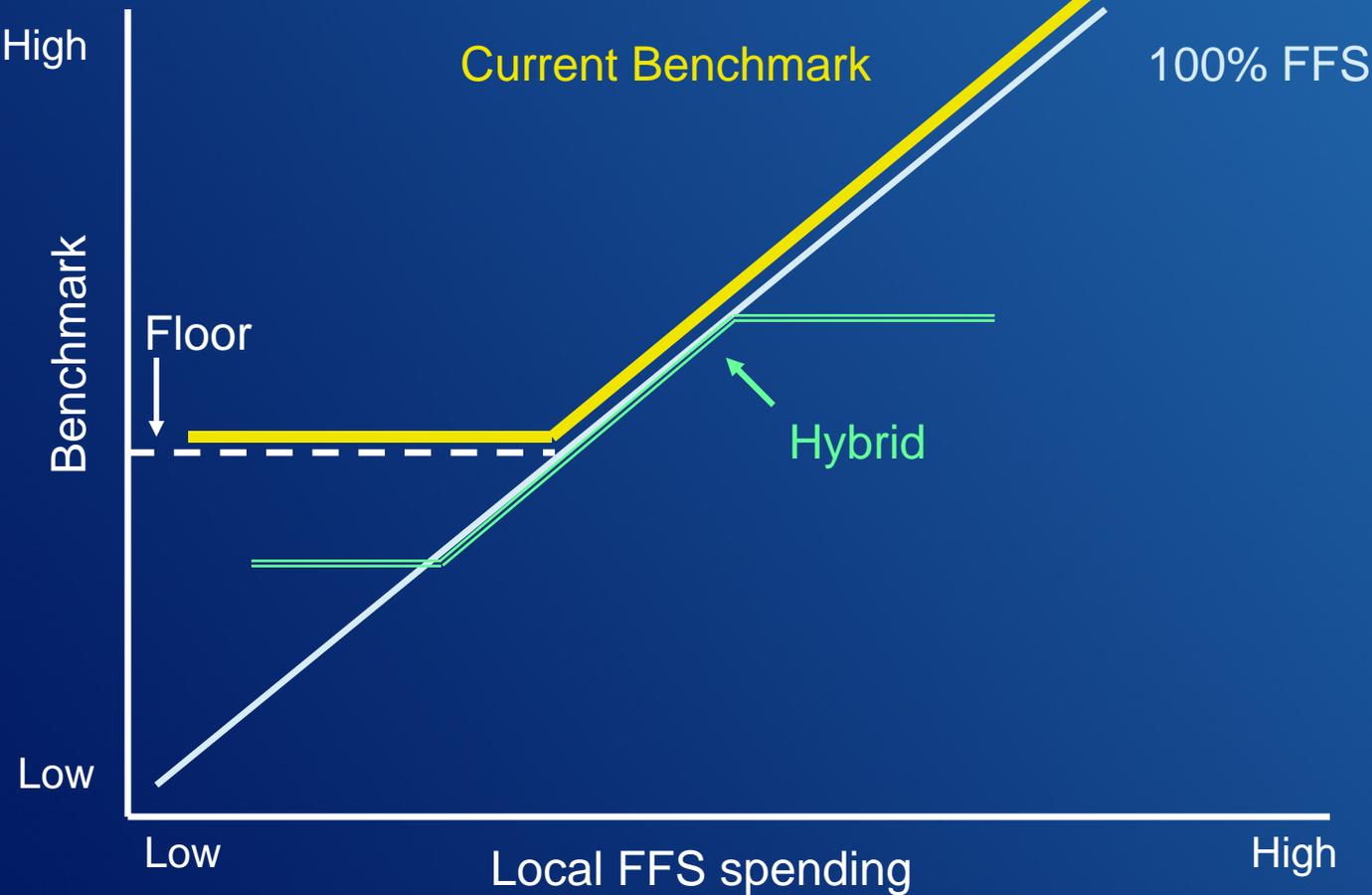
Simulation rules for today

- Models based on 2009 plan bids
 - Including HMOs, local PPOs, regional PPOs, and PFFS plans
 - Excluding SNPs and employer-group plans because they are not available to all
 - Excluding Puerto Rico
- Assumes no change in plan bidding behavior
- All options are financially neutral with FFS (100% FFS) in the first year, however effects over time are uncertain

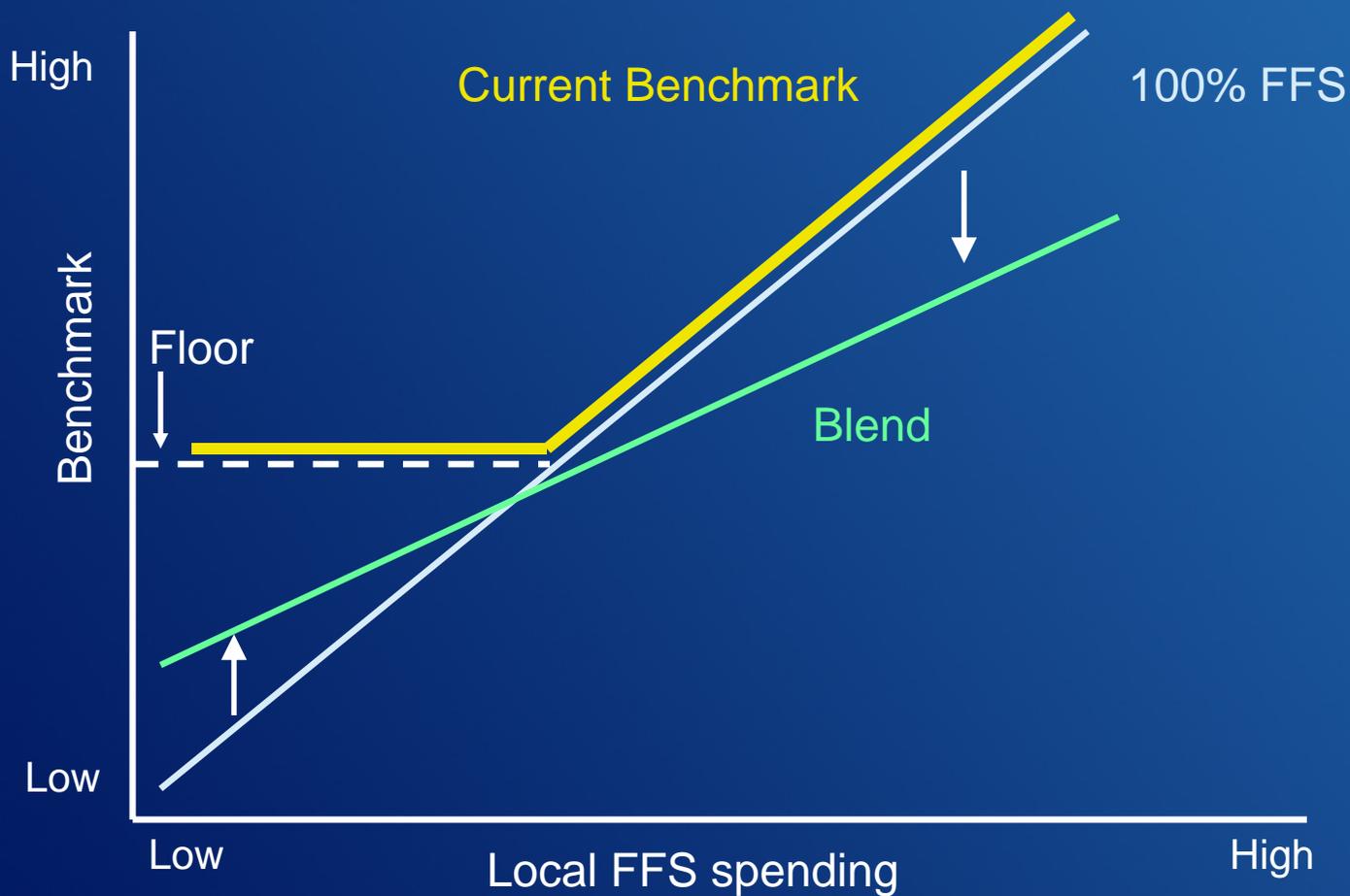
Option 1: local FFS spending would be below current benchmarks



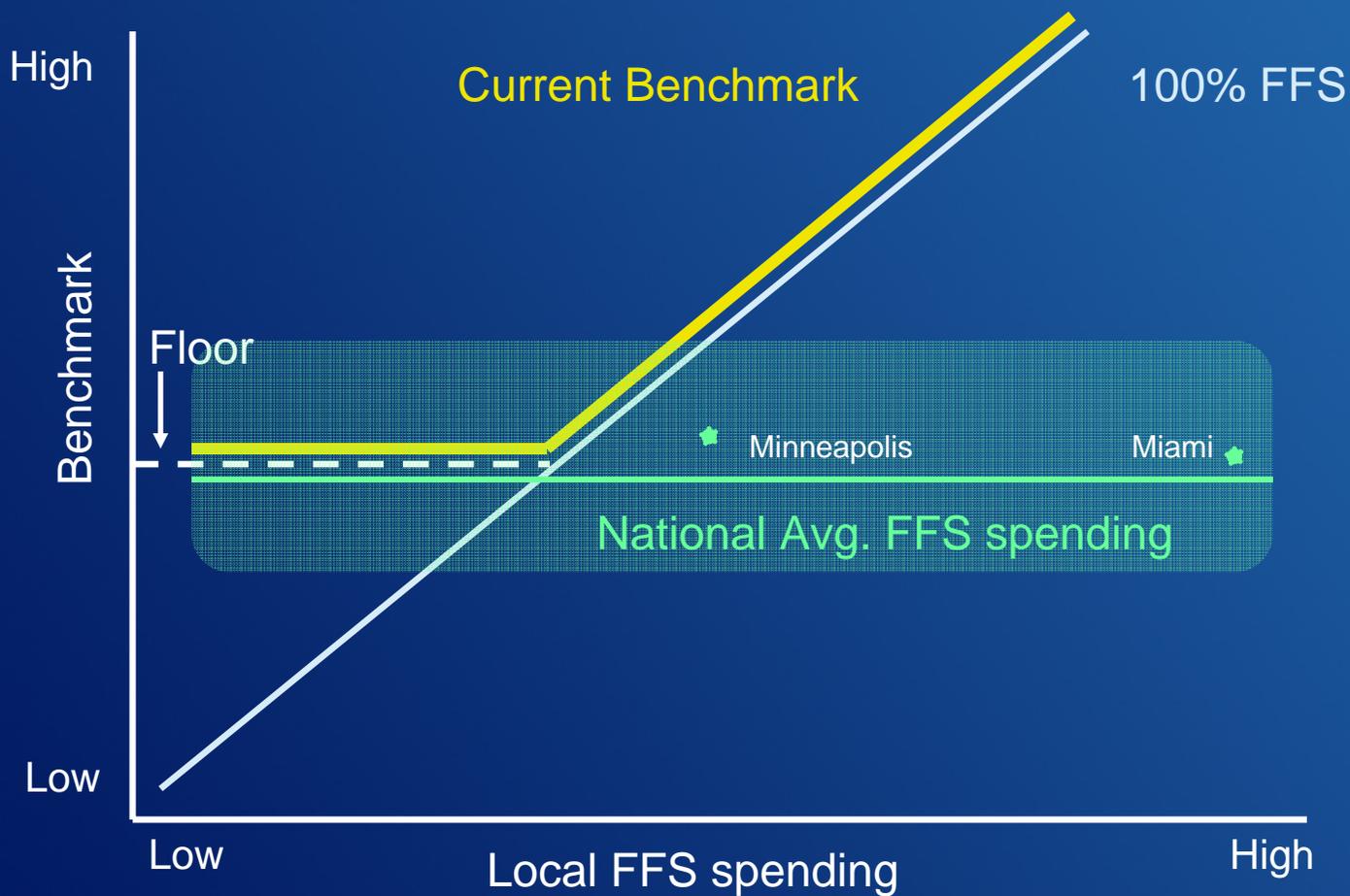
Option 2: Add floor and ceiling to local FFS (Hybrid)



Option 3: Blend of local FFS/national average FFS takes plan costs into account



Option 4: Input-price adjusted blend assumes national average service use in all areas



Key parameters of options

	Benchmark		Benchmark/FFS	
	Min	Max	Min	Max
Current benchmarks (118% FFS)	\$ 741	\$1,366	1.01	1.83
Alternative benchmarks (100% FFS, saves \$150 billion over ten years*):				
1 100% local FFS	\$453	\$1,285	1.00	1.00
2 Hybrid	600	960	0.74	1.32
3 75% local / 25% national blend	524	1,147	0.89	1.15
4 Input-price adjusted blend	618	926	0.54	1.56

* Note: CBO has only scored 100% local FFS. Other options might start at similar savings, but shifts in enrollment patterns over time could reduce the savings.

Medicare beneficiaries with plan bidding at or below benchmarks

	Total	Urban	Rural
Current benchmarks (118% FFS)	100%	100%	100%
Alternative benchmarks (100% FFS, saves \$150 billion over ten years*):			
1 100% local FFS	80%	84%	67%
2 Hybrid	81	85	68
3 75% local / 25% national blend	88	90	78
4 Input-price adjusted blend	94	96	88

* Note: CBO has only scored 100% local FFS. Other options might start at similar savings, but shifts in enrollment patterns over time could reduce the savings.

Medicare beneficiaries with local CCP bidding at or below benchmarks

	Total	Urban	Rural
Current benchmarks (118% FFS)	87%	95%	60%

Alternative benchmarks (100% FFS, saves \$150 billion over ten years*):

1	100% local FFS	66%	76%	31%
2	Hybrid	67	77	32
3	75% local / 25% national blend	73	82	40
4	Input-price adjusted blend	75	83	46

* Note: CBO has only scored 100% local FFS. Other options might start at similar savings, but shifts in enrollment patterns over time could reduce the savings.

Medicare beneficiaries with high quality plans bidding at or below benchmarks

	Total	Urban	Rural
Current benchmarks (118% FFS)	55%	60%	34%
Alternative benchmarks (100% FFS, saves \$150 billion over ten years*):			
1 100% local FFS	33%	38%	15%
2 Hybrid	34	39	15
3 75% local / 25% national blend	39	44	21
4 Input-price adjusted blend	49	54	31

Note: high quality = 3.5+ stars

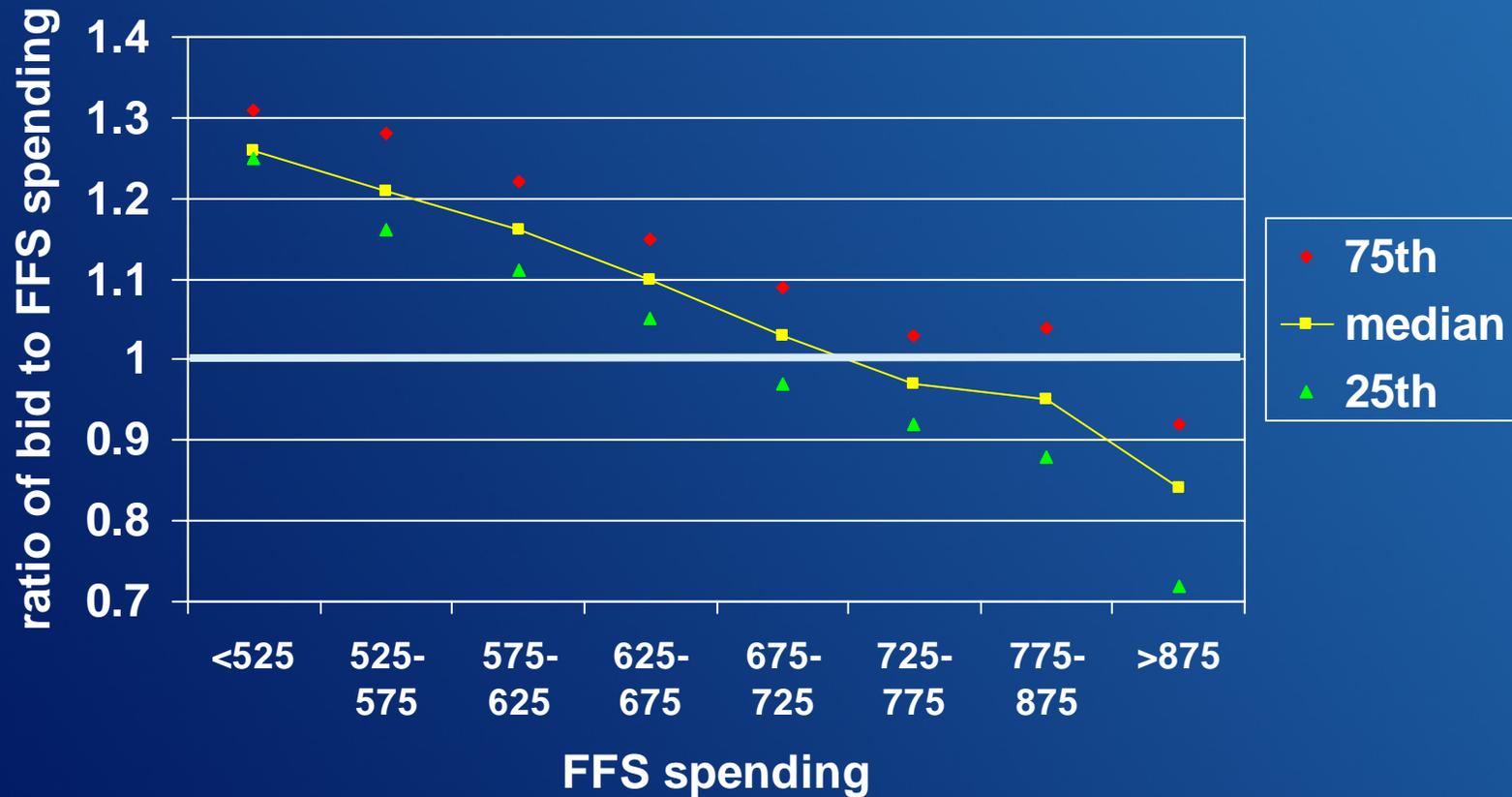
* Note: CBO has only scored 100% local FFS. Other options might start at similar savings, but shifts in enrollment patterns over time could reduce the savings.

Average rebate dollars

	Total	Urban	Rural
Current benchmarks (118% FFS)	\$96	\$101	\$59
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Alternative benchmarks (100% FFS, saves \$150 billion over ten years*):			
1 100% local FFS	\$75	\$76	\$35
2 Hybrid	62	63	34
3 75% local / 25% national blend	59	59	29
4 Input-price adjusted blend	38	40	20

* Note: CBO has only scored 100% local FFS. Other options might start at similar savings, but shifts in enrollment patterns over time could reduce the savings.

Bids are above FFS spending in lower spending areas



Using competitive bidding to set benchmarks

- Simulation challenges
 - Bidding rules determine simulation results
 - Short and long-run behavioral assumptions difficult to model
- What might we expect?
 - Overall benchmarks likely to be lower than current MA, but depending on design may not approximate 100 percent FFS
 - Benchmarks more (less) than FFS in some areas
 - Lower level of extra benefits than today

Transition from 118% FFS to 100% FFS benchmarks needs to be judicious

- Transition needed to limit disruption to beneficiaries
- Encourage high quality plans to stay in MA; pay differentially during transition
- A transition policy will lower savings estimate in ten-year window

Next steps

- Report to the Congress in June
- Will discuss measurement of FFS county level spending next month
- Other options for simulations?
- Transition strategy?