



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 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

MedPAC view of private plans

- 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 been concerned about how plans are currently being paid, and the incentives that the payment system has created

MA plan payment policy based on bids and benchmarks

- If bid > benchmark, program pays benchmark, enrollee pays premium
- If bid < benchmark
 - Medicare keeps 25% of difference
 - beneficiaries get 75% as extra benefits
- System could promote efficiency relative to FFS Medicare, but benchmarks are high and payments average 113% of FFS spending

Payments, bids, and extra benefits relative to FFS for 2008

	Payments/ FFS	Bids/ FFS	Extra Benefits/FFS
All MA plans	113%	101%	12%
Plan type			
HMO	112	99	13
Local PPO	119	108	11
Regional PPO	112	103	9
PFFS	117	108	9

*Extra benefits = payments-bid. They include plan administration and profit.

Source: MedPAC analysis of CMS data

Prior recommendation – June 2005

- The Congress should set the benchmarks that CMS uses to evaluate Medicare Advantage plan bids at 100 percent of the fee-for-service costs.

CMS's measurement of county-level spending

- Tabulation of all claims grouped by beneficiaries' county of residence
- Per capita measure is risk adjusted
- Five-year average used for stability

FFS spending estimates and VA spending

- Current FFS spending estimates do not include VA spending
- CMS plans to make an adjustment after testing to see if beneficiaries eligible for VA coverage have different Medicare spending patterns
- Result could raise or lower benchmarks overall

FFS spending estimates and administrative costs

- Are all appropriate administrative costs included in the FFS spending estimates?
- The FFS spending estimates include claims processing costs
- Other administrative costs are appropriately excluded

Study the correlation between MA plan costs and county FFS Medicare spending

- Do plan costs rise as FFS spending rises?
- The mandate instructs us to use plan bids as cost measure

Plan cost and FFS spending strongly correlated

	All areas	Urban areas	Rural areas
All MA plans	0.88	0.85	0.91
Plan type			
HMO	0.89	0.86	0.94
Local PPO	0.94	0.92	N/A
Regional PPO	0.95	N/A	N/A
PFFS	0.93	0.92	N/A

Source: MedPAC analysis of CMS data

Note: Rural area plans include plans with 90% enrollment from rural areas

N/A – fewer than 40 plans of that type

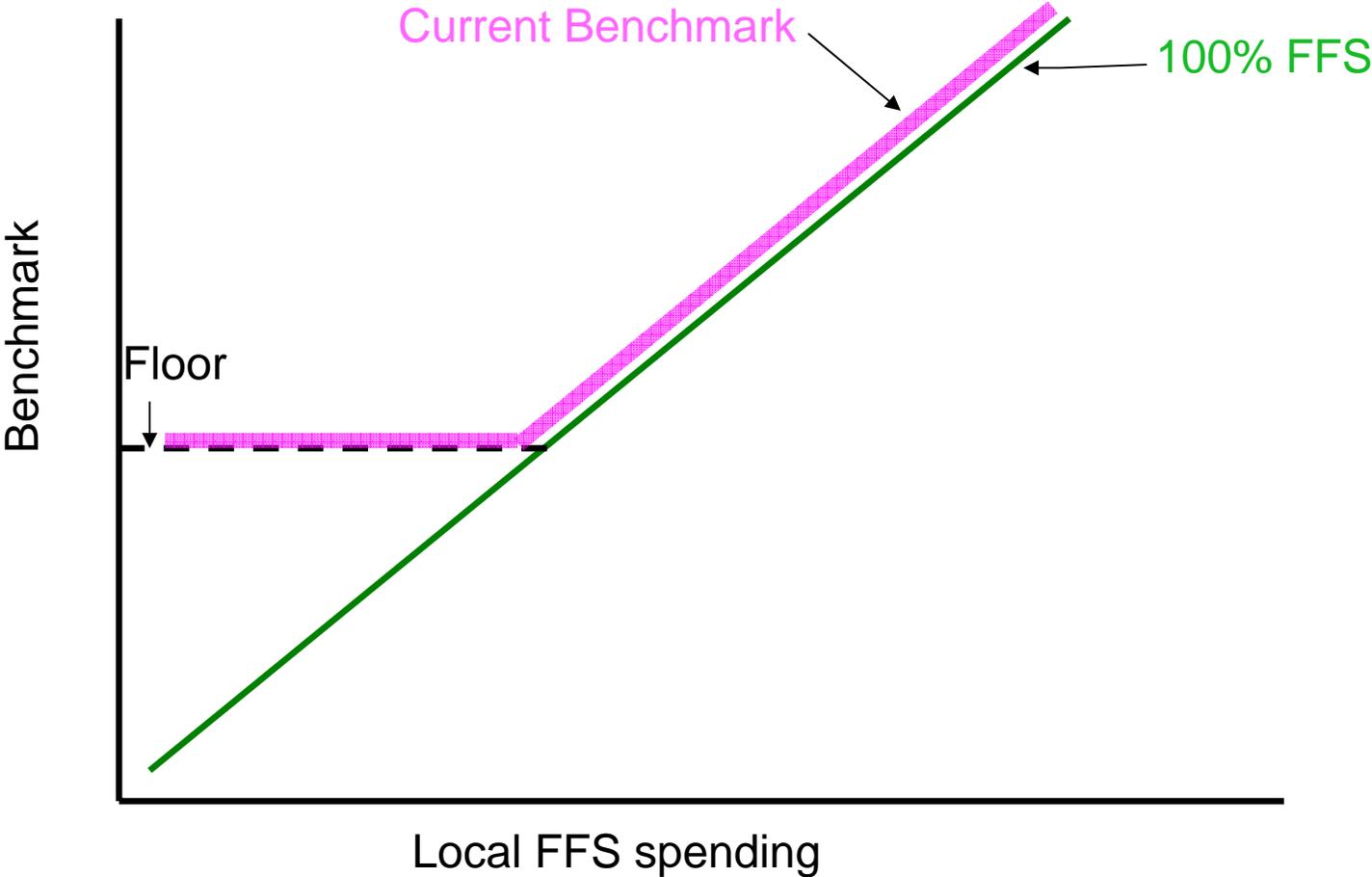
Alternate payment approaches

- Language asks us to examine policies other than payment based on FFS at county-level
 - Blend
 - Larger payment areas
 - Others to be discussed at future meetings

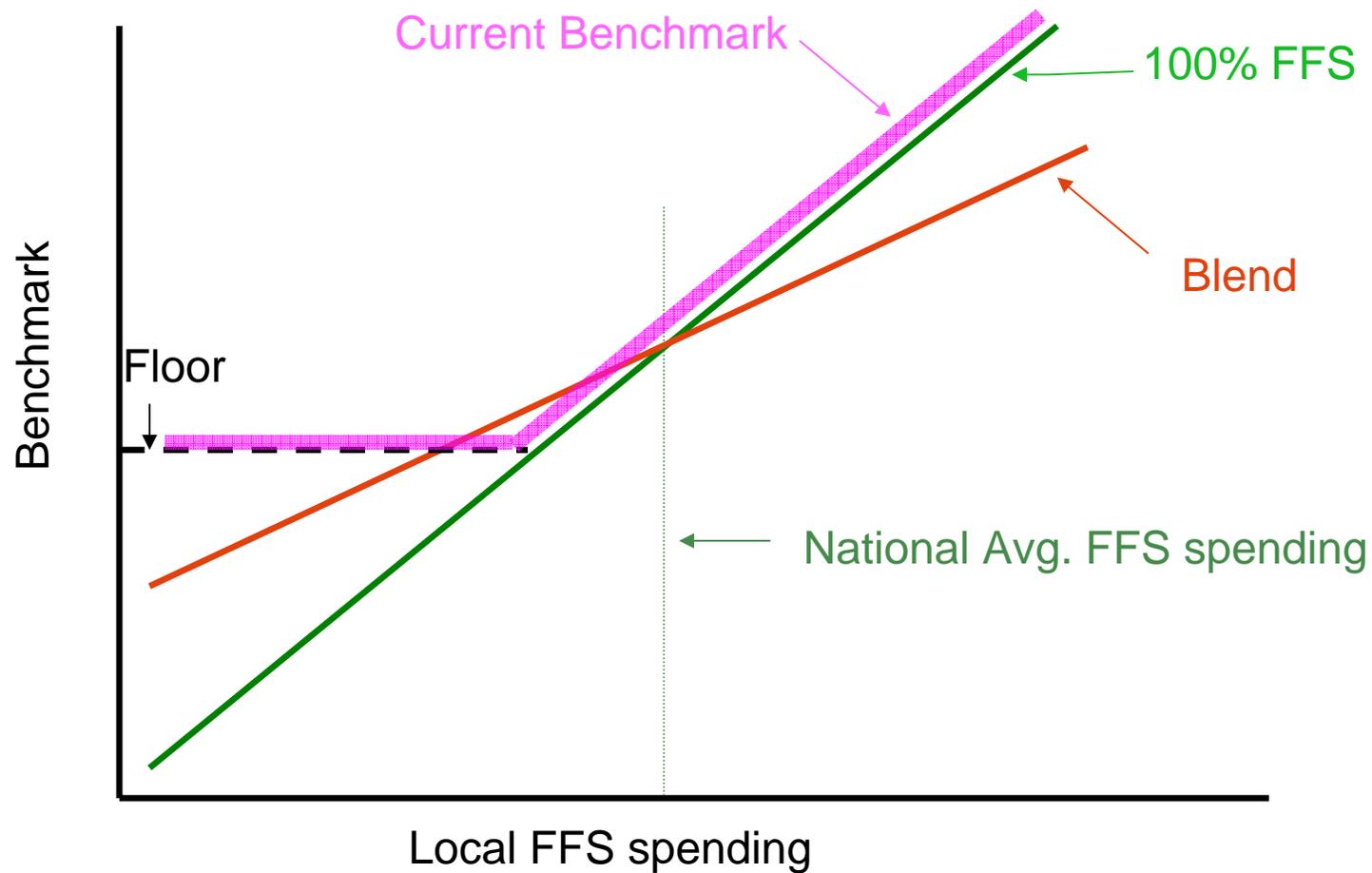
One alternative approach - Blend

- Blend national and local FFS spending
- Use regression to find the blend of local and national spending

Benchmarks based mostly on FFS spending and floors



Using a local/national blend to set benchmarks



Payment areas

- Counties currently serve as MA payment areas; each county has a benchmark, sometimes based on FFS spending
- FFS spending at county level creates problems
 - FFS spending unstable over time because of low population
 - Adjacent counties can have very different FFS spending; creates perception of inequity

Previous MedPAC work on payment areas

In June 2005, recommended:

- Among urban counties, payment areas should be collections of counties in same MSA and same state
- Among rural counties, payment areas should be collections of counties in same state that are reflections of health care market areas, such as health service areas (HSAs)

MSA/HSA definition addresses problems presented by county definition

- Increases stability of FFS spending
 - Reduces chance of benchmark exceeding county's typical level of FFS spending
- Reduces large differences in FFS spending between adjacent counties
 - Benefits more likely to be similar in adjacent counties

Other important effects of MSA/HSA definition

- Effectively approximates market areas served by plans
- Redistributes MA spending among urban counties and among rural counties
- Does not redistribute spending from rural counties to urban counties (or other way around)
- Does not redistribute spending from one state to another

Next steps

- Based on Commissioners' input, develop alternative payment approaches
 - Blend national and local FFS spending
 - National benchmark adjusted for variation in prices and other factors
- Simulate effects of alternative approaches under county definition and MSA/HSA definition of payment areas