



*Advising the Congress on Medicare issues*

# Improving traditional Medicare's benefit design

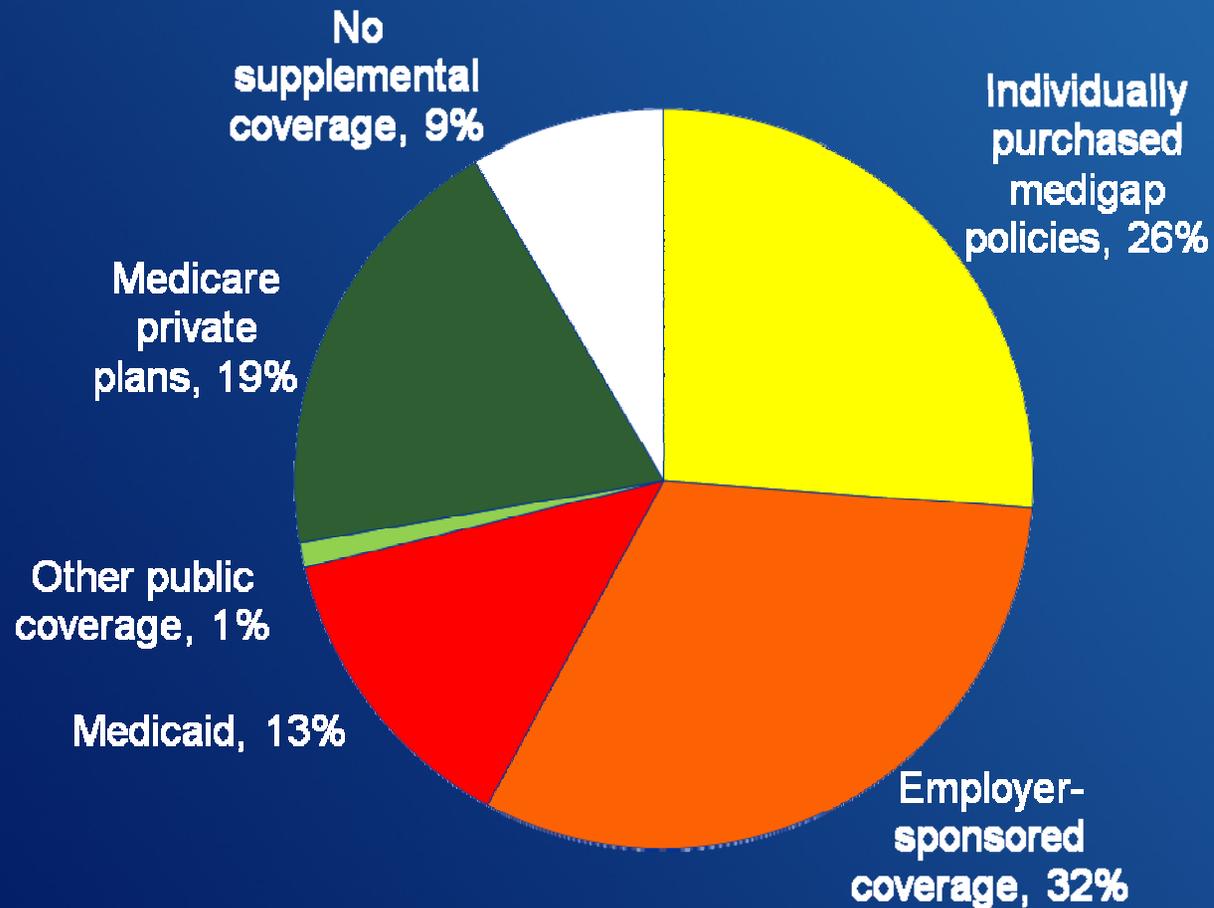
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# Context for reforming Medicare's benefit design

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- Improve provider *and beneficiary* incentives
- Protect the sickest beneficiaries from very high out-of-pocket spending
- Improving program performance and financial sustainability will require changes over the longer term
  - Generational shifts in Medicare's benefit?
  - Use of management tools?
  - Value-based insurance design?

# Most Medicare beneficiaries have supplemental coverage, 2006



Note: Excludes beneficiaries who were institutionalized.

Source: MedPAC analysis of Medicare Current Beneficiary Survey, cost and use files, 2006.

# Two sets of beneficiary incentives

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- At the point of selecting a program or plan
  - In commercial markets, premiums can signal breadth of coverage and networks
  - In Medicare, premiums are not a good price signal
    - FFS: Same benefit design, uniform premium, any willing provider, supplemental coverage
    - MA: Premium subsidies can mask price signal
- At the point of service
  - Can affect when beneficiaries initiate seeking care
  - Which provider to use
  - Which therapy to use, if any

# Lessons from past work

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- Supplemental coverage associated with significantly higher Medicare spending
  - Within each category of supplemental insurance, paying little out of pocket is associated with higher Medicare spending
  - Suggestive that, if role of supplemental coverage were redefined, cost sharing could facilitate beneficiaries' choice of high-value care
- Low-income individuals are moderately more sensitive to cost sharing

# Problems with the status quo

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- FFS benefit design leads to highly concentrated cost sharing
  - No out-of-pocket protection
  - High inpatient deductible, low Part B deductible
- Premiums for individually purchased policies are often expensive and vary widely
- Effects of supplemental insurance
  - Masks point-of-service price signals that may affect beneficiaries' choices about care
  - Associated with higher Medicare spending

# Objectives for improving Medicare's FFS benefit design

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- 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 individuals
- Develop the evidence base to help understand the relative value of treatments and ways of encouraging use of high-value services

# Add an out-of-pocket cap

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- Many beneficiaries would be better off
  - Medicare would pay more of the costs of the highest-spending beneficiaries
  - Many would see lower supplemental premiums
- But higher taxpayer costs and Part B premiums
- Consider including nominal cost sharing above the cap as in Part D

# Medicare cost-sharing liability in 2008

Amount of cost-sharing liability per person	Percent of FFS beneficiaries	Average amount of cost sharing per beneficiary
\$1 to \$499	42%	\$250
\$500 to \$1,999	36%	\$1,071
\$2,000 to \$4,999	16%	\$3,036
\$5,000 to \$9,999	4%	\$6,879
\$10,000 or more	2%	\$15,402

Note: Amounts reflect cost sharing under FFS Medicare—not what beneficiaries paid out of pocket. Most beneficiaries have secondary insurance that covers some or all of their Medicare cost sharing.

Source: MedPAC based on data from CMS.

# Hypothetical \$5,000 out-of-pocket cap

Hypothetical out-of-pocket cap amount	Cumulative amount of cost sharing above the cap (in \$ billions)
\$2,000	\$21.5
\$5,000	\$10.0
\$10,000	\$3.9

Note: Amounts of cost sharing above the cap do not include induced demand.  
Source: MedPAC based on data from CMS.

- Pros
  - Cost-sharing relief for top 6% of beneficiaries
  - ~15% decrease in average medigap premium
- Cons
  - Medicare spending would increase by more than \$10 billion per year
  - ~\$4 increase in monthly Part B premium

# OOP cap + a combined deductible

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- Combined deductible is a means of addressing high Part A and low Part B deductibles in current benefit design
- But to be budget neutral, simply adding an OOP cap would require a relatively high combined deductible

# Hypothetical \$5,000 out-of-pocket cap plus ~\$950 combined deductible

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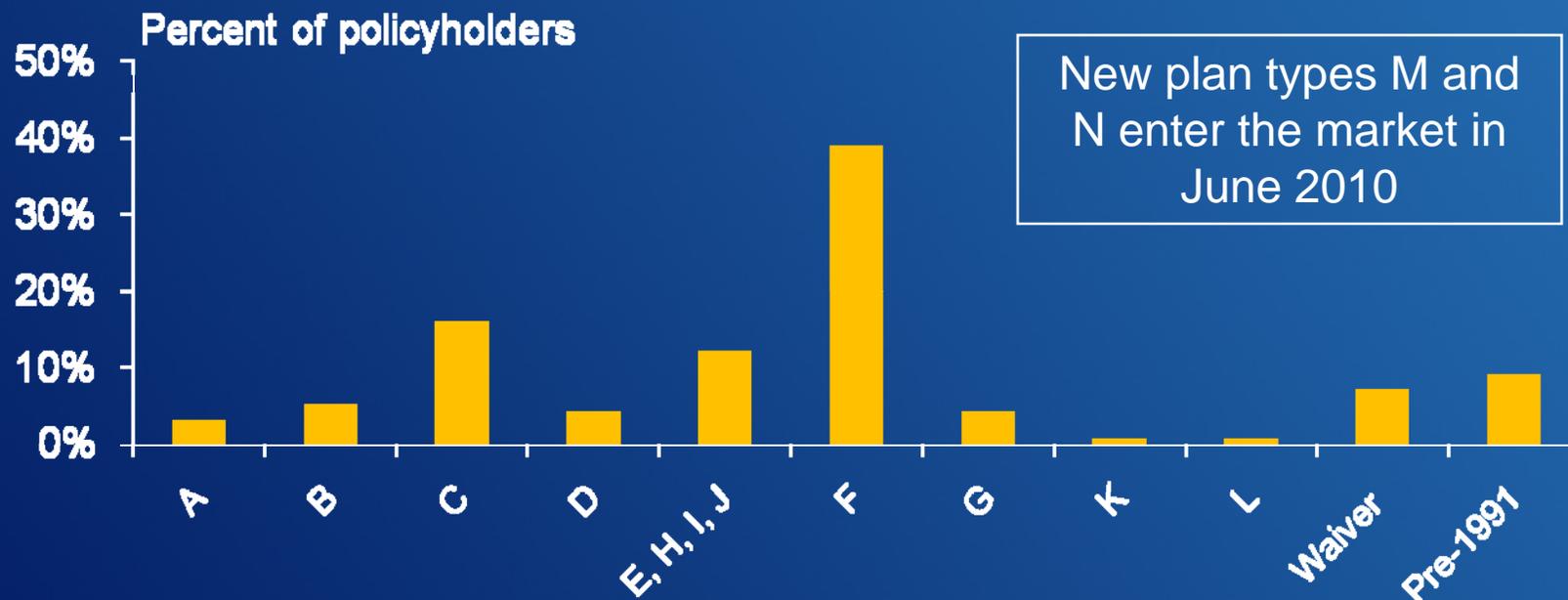
- Pros
  - Cost-sharing relief for top 6% of beneficiaries
  - No change to Medicare program spending
  - Lower Part B premium
  - If supplemental plans cover the deductible, roughly same average medigap premium as current law
- Cons
  - Combined deductible is high
  - Concerns about utilization among low-income beneficiaries without supplemental coverage

# OOP cap + combined deductible + excise tax on some supplemental plans

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- Incentive to reduce reliance on supplemental plans with the most complete coverage
- Excise tax revenues go to trust funds
- Ensure that current policyholders can move into newer types of medigaps if they choose

# Distribution of medigap policies in 2008



Part A deductible		X	X	X	X	X	X	X	X	?	?
Part B deductible			X			X				?	?
Average premium	\$1,500	\$1,800	\$1,900	\$2,000	\$2,000	\$2,000	\$1,900	\$800	\$1,300	\$2,200	\$2,600

Notes: Waiver states include Massachusetts, Minnesota, and Wisconsin. Plans E, H, I, and J will be closed to future enrollment in 2010.

Source: MedPAC analysis of data from the National Association of Insurance Commissioners.

# Other approaches

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- Prohibit coverage of Medicare's deductible
- All supplemental insurance subject to an excise tax, not just the most complete plans
- Apply excise tax to some or all employer-sponsored retiree plans
  - In 2005, about 20% with retiree coverage had no out-of-pocket spending other than premiums
  - Approximately 50% paid 5% or less of their Part B spending out of pocket

# Review of potential nearer-term improvements

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- An OOP cap with nominal cost sharing thereafter
- Combined deductible
- Excise tax on supplemental plans that provide the most complete coverage of Medicare's cost sharing

# Other issues to explore

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- More uniform cost sharing across services
- Restructure future FFS offerings
- Pilots or demonstrations
  - Shared savings with insurers that offer hospital and physician networks through Medicare SELECT plans
  - Value-based insurance design

# Goal is to make Medicare's benefit package better

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- Protect the sickest Medicare beneficiaries from very high OOP spending
- At the same time, need other reforms
  - Encourage beneficiaries' choice of higher-value services
  - Avoid worsening financial sustainability