



Advising the Congress on Medicare issues

Using competitive pricing to set beneficiary premiums in the FFS and Medicare Advantage programs

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March 4, 2016

Outline of today's presentation

- Part 1
 - Review analytic framework
 - Provide updated figures for three illustrative examples for calculating beneficiary premiums
 - Discuss options for mitigating potential impact on beneficiaries
- Part 2
 - Explore greater use of competitive pricing, but only within the MA program

Policy context

- Commission's work on creating incentives for providers and private plans to improve quality and efficiency
- Beneficiaries also have a role
- Create financial incentives for beneficiaries to choose efficient models
- Potential savings in program spending can be shared with taxpayers and beneficiaries

Analytic framework

- Define a market area
 - Core-based statistical areas (CBSAs)
 - Health services areas (HSAs)
- Calculate average FFS spending
 - Per beneficiary per month, standardized for average health status
- Recalculate MA plan bids
 - Current MA plan bids for 2016
 - Convert from service area to market area
- Assume quality of care is same in FFS and MA

Examples of market areas, 2016

	Portland, OR	Columbus, OH	Miami, FL
Number of Medicare beneficiaries (in thousands)	292	294	429
Number of counties in market area	5	10	1
Number of MA plan bids	23	26	25
MA penetration rate	58%	42%	64%
Average monthly FFS spending	\$652	\$744	\$1,102
Median MA plan bid	\$712	\$704	\$744
Average MA plan bid	\$723	\$734	\$743

Note: FFS (fee-for-service), MA (Medicare Advantage). FFS spending for 2016 is projected and excludes hospice, direct graduate medical education, and indirect medical education payments. FFS spending and MA plan bids are per month per beneficiary and standardized for a beneficiary of average health status. Market areas consist of core-based statistical areas and health services areas in the 50 states and the District of Columbia. Number of Medicare beneficiaries and MA penetration rates are as of January 2016.

Source: MedPAC analysis of MA plan bids for 2016 and MA enrollment data for January 2016. Preliminary and subject to change.

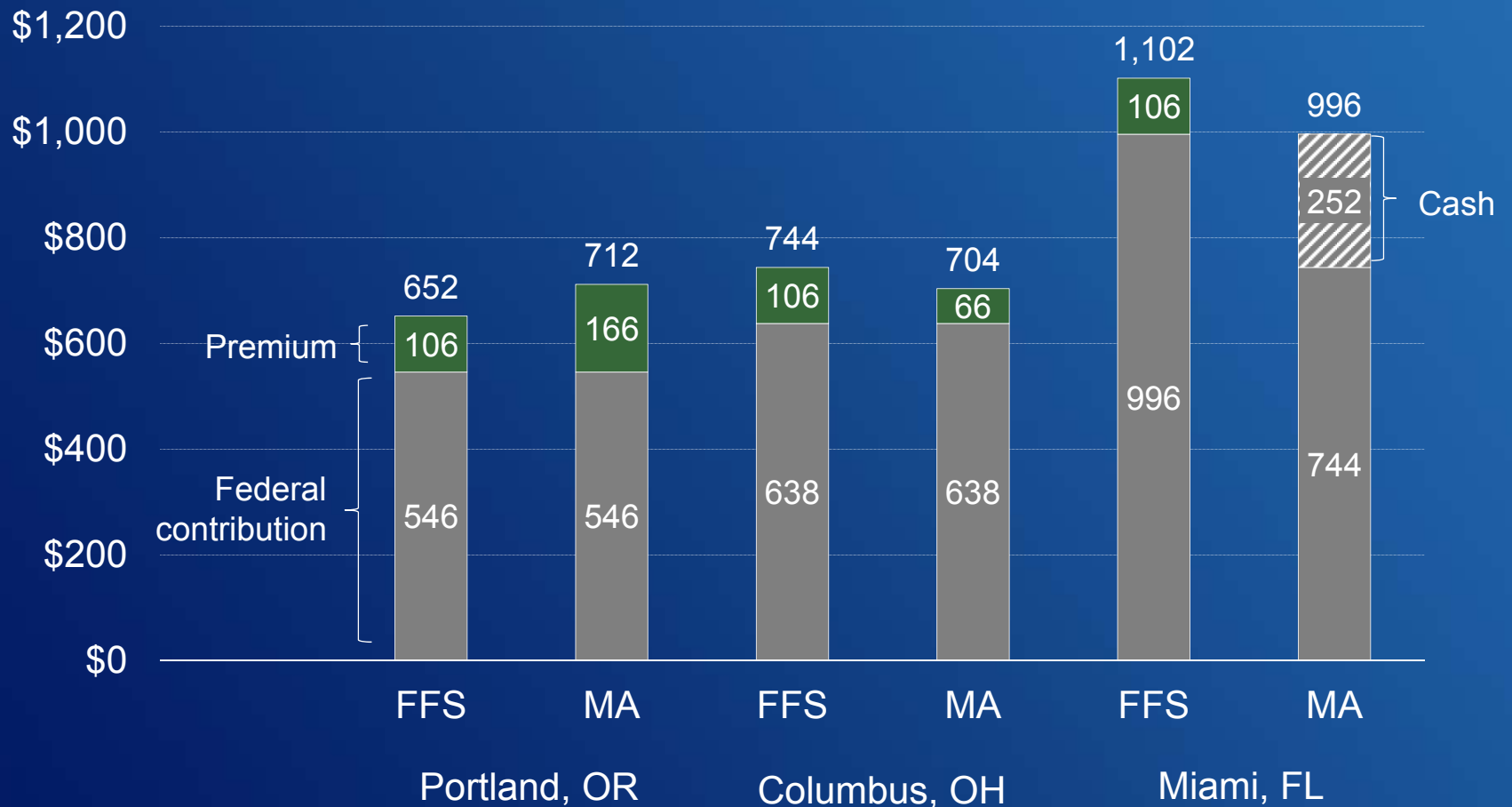
Three illustrative examples for calculating beneficiary premiums

- 1) Nationally-set base premium buys FFS Medicare in every market
- 2) Nationally-set base premium buys either FFS Medicare or reference MA plan—whichever costs less—in each market
- 3) Locally-set base premium buys either FFS Medicare or reference MA plan—whichever costs less—in each market

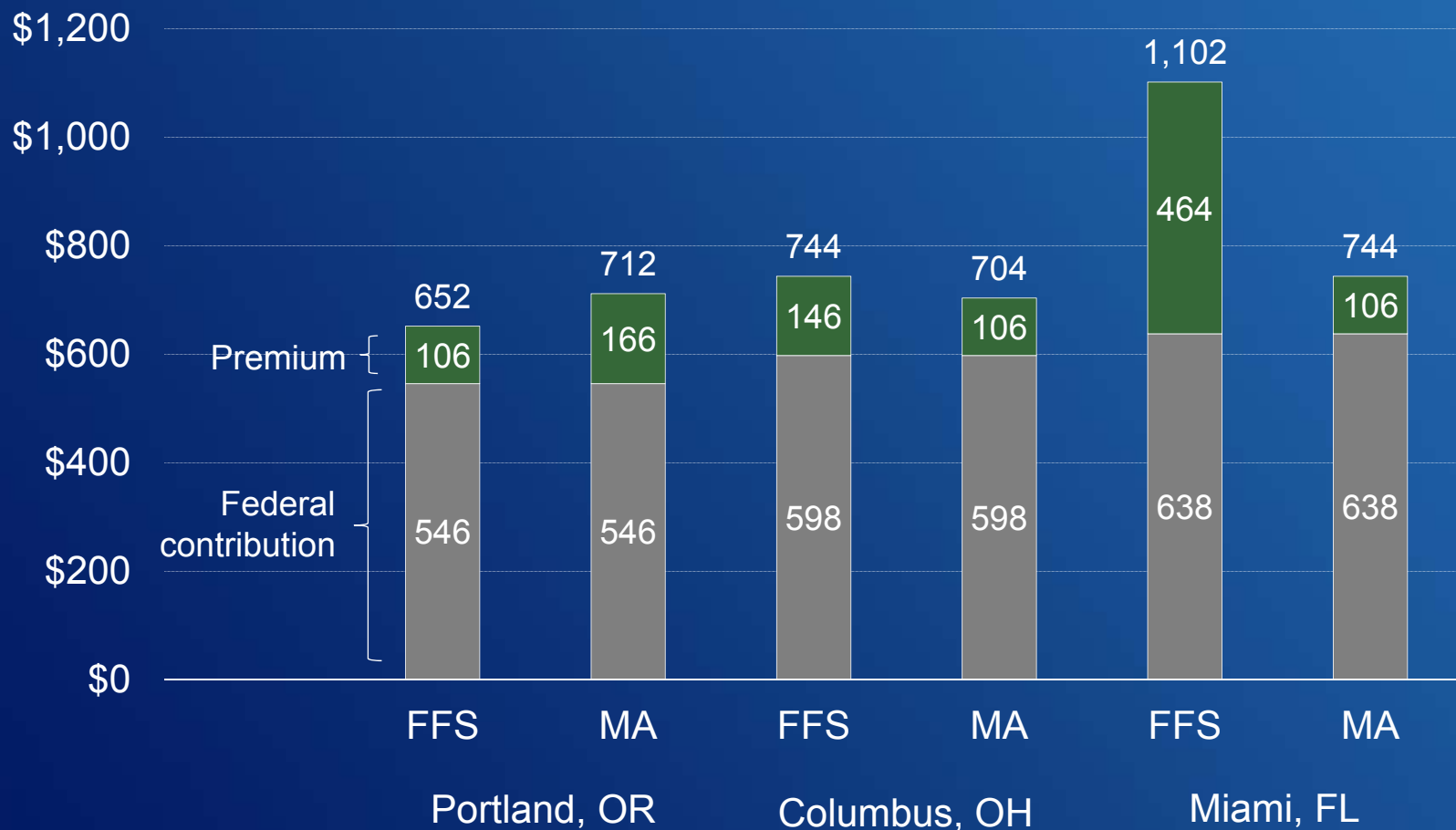
Key considerations when comparing illustrative examples

- Impact on premiums for existing coverage
 - Example 1 – majority of beneficiaries pay the same or less for their existing coverage
 - Examples 2 and 3 – majority of beneficiaries pay more for their existing coverage
- Who pays for regional variation in spending?
 - Example 1 – uniform premium means federal contribution varies more across markets
 - Examples 2 and 3 – linking base premium to lower-cost model makes federal contribution more uniform (and premiums less uniform) across markets
 - Example 3 – locally set base premium allows beneficiaries to benefit some from living in low-spending areas

Example 1: National base premium buys FFS in every market



Example 2: National base premium buys lower of FFS or MA



Difference between average FFS spending and the median MA bid



- About 45% of beneficiaries live in areas where the difference is less than \$50
- About a third live in areas where the difference is \$100 or more – FFS is the more expensive model in most of these areas

Mitigating the impact of higher premiums on beneficiaries

- New method for calculating premiums could be phased in over time
- Annual limits on premium increases (such as a dollar amount or maximum percentage)
- Could link mitigation to other program goals – those with medigap could face larger increases
- Consider implications for state Medicaid programs and low-income beneficiaries

Illustrative examples of mitigating FFS premium increases in Chicago



A: Immediate transition to new method
(\$106 in 2016, \$311 in 2021)

B: Phase in new method over 5 years
(\$106 in 2016, \$311 in 2021)

C: Limit annual increases to \$20
(\$106 in 2016, \$206 in 2021)

D: Current premium
(\$106 in 2016, \$130 in 2021)

Caveats to our analysis

- Assumed quality is the same in FFS and MA
- Most market areas have multiple MA plans available, not just FFS and a single MA plan
- Static analysis – plans would bid differently if rules change, and some beneficiaries would choose differently as well
- Illustrative examples do not represent all possible design choices

Clarifying questions on Part I of this presentation

Alternative: Bid-based benchmarks

- Area benchmarks determined by MA plan bids
 - Variants proposed by the Bipartisan Policy Center, President's budget; used in early competitive pricing demonstrations
- Different from current MA program
 - Plan bids determine the benchmark—not set administratively
 - Plans will bid on a standardized benefit package (or for fixed value) that is more generous than Medicare Part A/B package
- Implemented where program savings would be expected (otherwise current law applies)

Effect of bid-based benchmarks

- Bids will be above and below competitively set benchmark
 - Currently, 96 percent of non-employer, non-special-needs plan bids below benchmark
- Beneficiaries receive a premium refund if they pick a plan with a bid below the benchmark; will pay an additional premium for plan with a bid above benchmark
 - But all enrollees will have extra benefits above Medicare Part A/B package because plans are bidding on a more generous package
- Attractiveness of MA option relative to FFS will vary by market

Nature of benefit differs from current MA

Current MA

Primary basis of competition: Extra benefits that vary from plan to plan (not standardized or of fixed value)

--Makes beneficiary's evaluation of relative value of each plan difficult

--Compared to FFS: Benefits currently better than FFS in almost all plans.

Bid-based benchmarks

- **Primary basis of competition:** Premium differences across plans
- Bids include standardized extra benefits package

--Simplifies beneficiary's evaluation of relative value of each plan (standardized benefits could be an actuarial standard or fixed extra benefits): **What is the premium?**
--Compared to FFS: Benefits always better than FFS, but at what MA premium level, if any?

Illustration of markets qualifying for bid-based benchmarks, in 2016

	Portland, OR	Columbus, OH	Miami, FL
Current MA benchmark	\$748	\$774	\$1,047
Current MA plan bids	\$723	\$734	\$743
Current MA payment	\$736	\$754	\$895
Current bids + 5 percent (payment under bid-based benchmarks)	\$759	\$771	\$780
Expected savings from moving to bid-based benchmarks	-3%	-2%	13%

Note: MA (Medicare Advantage). MA plan bids are per month per beneficiary and standardized for a beneficiary of average health status. Market areas consist of core-based statistical areas and health services areas in the 50 states and the District of Columbia. Source: MedPAC analysis of MA plan bids for 2016 and MA enrollment data for January 2016.

Illustrative plans' benefits under bid-based benchmarks in Miami, 2016

	Plan A	Plan B	Plan C
Plan bid for 105 percent of Medicare benefit	\$741	\$780	\$819
Bid-based benchmark payment	\$780	\$780	\$780
Bid-based benchmark rebate (5% supplemental benefit)	\$39	\$39	\$39
Cash back	\$39	\$0	-\$39
Total extra value of plan above FFS	\$78	\$39	\$0

Source: MedPAC analysis of MA plan bids for 2016 and MA enrollment data for January 2016.

Comparing plan benefits under bid-based benchmarks v. current law in Miami, 2016

	Plan A	Plan B	Plan C
Bid-based rebate (5% supplemental benefit)	\$39	\$39	\$39
Cash back	\$39	\$0	-\$39
Total extra value of plan above FFS	\$78	\$39	\$0
Current-law rebate (used to provide supplemental benefits)	\$171	\$152	\$133

Note: FFS (fee-for-service), MA (Medicare Advantage). Source: MedPAC analysis of MA plan bids for 2016 and MA enrollment data for January 2016.

Comparing Medicare payments under bid-based benchmarks v. current law in Miami, 2016

	Plan A	Plan B	Plan C
Bid-based benchmarks system payment	\$780	\$780	\$780
Current payment	\$876	\$895	\$914
Medicare savings	\$96	\$115	\$134

Source: MedPAC analysis of MA plan bids for 2016 and MA enrollment data for January 2016.

Conclusions

- Currently, MA plans compete on benefits rather than price
- The beneficiary does not always have an incentive to choose the most efficient option, thus system not truly competitive
- Competitive pricing systems have such incentives
- If FFS is part of the competitive pricing system, policymakers may wish to mitigate the effects for some beneficiaries in MA and FFS

Points for discussion and future work

- Comments and questions
- Additional information needed to complete chapter for June report
- Additional research for next report cycle