Determining benchmarks and beneficiary premiums under a premium support system for Medicare

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Overview of today's presentation

- Background on premium support
- Role of the FFS program
- Using competitive bidding to establish benchmarks
- Options for mitigating large increases in beneficiary premiums
- Topics for discussion

Background on premium support

- Beneficiaries elect to receive Medicare benefits through FFS or a managed care plan
- Medicare pays a set amount for coverage, no matter what a beneficiary chooses
- Premium equals difference between total cost of coverage option and Medicare contribution
- More expensive plans have higher premiums
- Variable premiums give beneficiaries an incentive to choose lower-cost plans

Role of the FFS program

- Premium support proposals have differed on how FFS program would be treated
- Treating FFS as a competing plan with its own “bid” would have several benefits
  - Premiums would reflect the relative cost of FFS and managed care
  - FFS would be low-cost option in some areas
  - Restrain rates that plans use to pay providers
  - Provide coverage in areas without plans
  - Some beneficiaries will prefer FFS coverage

Using competitive bidding to establish the benchmark

- Benchmark serves as reference point for cost of providing Medicare benefit package
  - Higher benchmarks = higher Medicare spending and lower beneficiary premiums
  - Lower benchmarks = lower Medicare spending and higher beneficiary premiums
- Competitive bidding could provide better price information than administered pricing
- Benchmark could be based on lower-cost delivery system (FFS or managed care) in each market area

Establishing the base premium and Medicare contribution

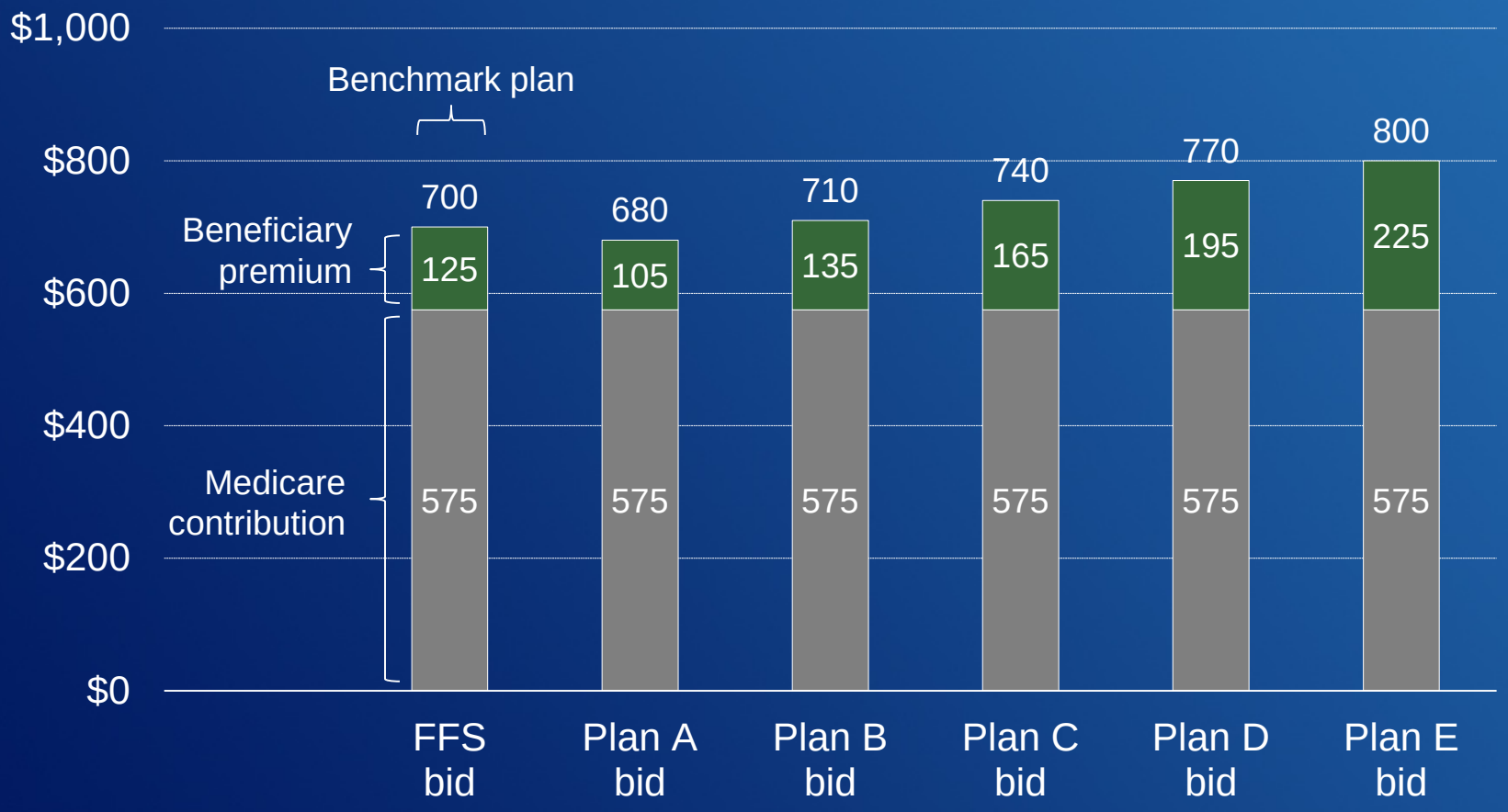
- Benchmark would be split into base premium and Medicare contribution
- Premium for any plan equals base premium plus difference between bid and benchmark
- Base premium could be a standard dollar amount (like Part B premium) or a standard percentage of the benchmark
- Proposals to limit growth in Medicare contribution could lead to higher premiums

Key steps in the bidding process

- Determine the benchmark
- Determine the base premium
- Subtract the base premium from the benchmark to determine the Medicare contribution for every plan in the area
- Add the base premium and the difference between the plan's bid and the benchmark to determine the premium for each plan

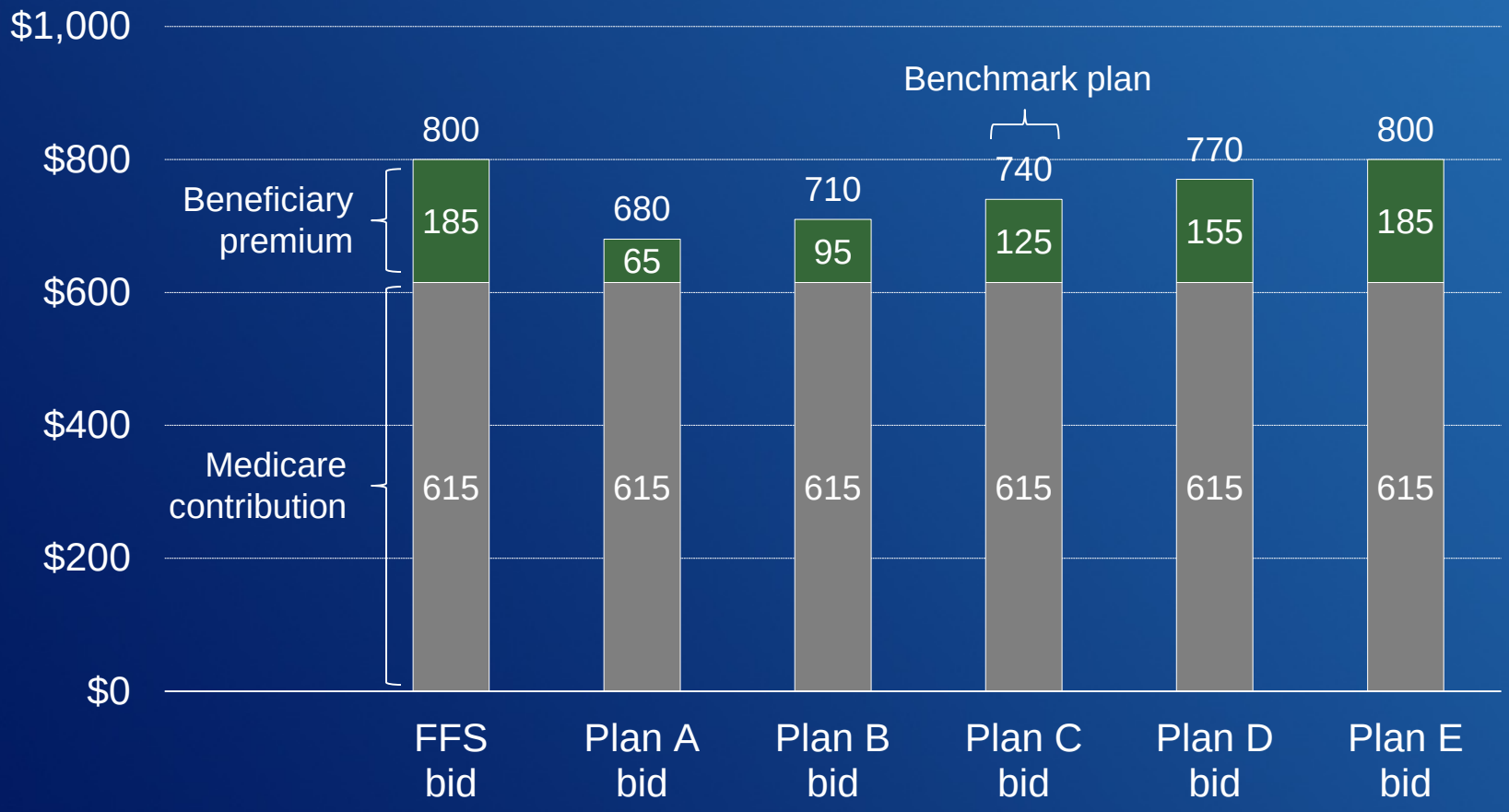
Illustrative example 1: FFS bid sets the benchmark

Benchmark = FFS bid (lower than median plan bid); base premium = $125



Illustrative example 2: Managed care bid (Plan C) sets the benchmark

Benchmark = median plan bid (lower than FFS bid); base premium = $125



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Premium support and geographic variation in spending

- Medicare spending varies significantly across the country due to differences in payment rates, beneficiary health, and service use
- Even with risk adjustment, some variation in spending remains – largely driven by different physician practice patterns
- Policymakers would need to decide who pays for this remaining variation
- Bidding areas and method used to set base premium would play important roles

Impact of local bidding areas and a standard base premium

	Area 1 (average cost = $850)		Area 2 (average cost = $1,000)	
	Beneficiary	Medicare	Beneficiary	Medicare
National benchmark of $925; Medicare pays 86.5%, beneficiary pays the rest	$50	$800	$200	$800
Area-specific benchmarks; beneficiary pays 13.5%, Medicare pays 86.5%	$115	$735	$135	$865
Area-specific benchmarks; beneficiary pays $125 in all areas, Medicare pays the rest	$125	$725	$125	$875

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

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Note: Figures are preliminary and subject to change

Options for mitigating large increases in beneficiary premiums

- Beneficiaries could avoid paying higher premiums by switching to a lower-cost plan
- New method for calculating premiums could be phased in over time
- Annual limits on premium increases (such as a dollar amount or maximum percentage)
- New beneficiaries in some areas could be enrolled in lower-cost plans instead of FFS
- Premium subsidies for 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)

Topics for discussion

- Views on key elements of method for setting benchmarks and premiums
  - Treat the FFS program like a competing plan
  - Use competitive bidding to set benchmarks
  - Use local market areas as bidding areas
  - Set benchmark at lower of FFS, managed care
  - Base premium should be a standard dollar amount
- How much should be done to mitigate large premium increases?