Reforming Medicare's benefit design

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November 3, 2011

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Objectives for reforming Medicare's benefit design

- 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 beneficiaries and those in poor health

Review of last month's presentation

- Current FFS Medicare
  - Cost-sharing liability can be very high for some
  - Beneficiaries have supplemental coverage filling in Medicare's cost sharing
- Alternative benefit packages

Benefit design	Coinsurance	MA – neutral	MA – plus
OOP maximum	$5000	$5000	$5000
A & B deductible	$500	$750	$500
Additional cost sharing	20% coinsurance	Copayments	Copayments

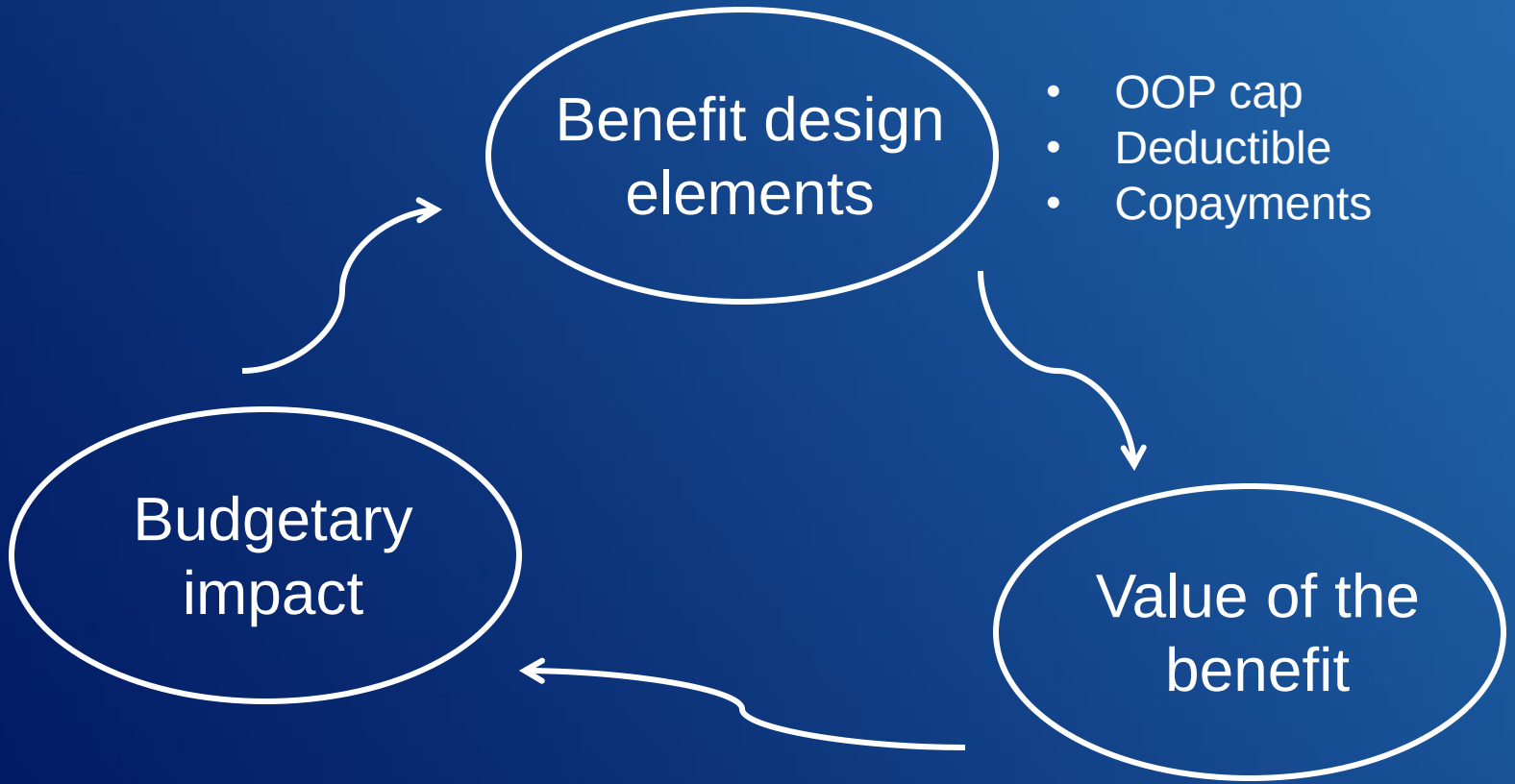
Outline of today's presentation

- Role of supplemental coverage
- Analytical framework
- MA – neutral package, with supplemental coverage
  1) Remaining unchanged
  2) Not allowed to fill in any cost sharing
  3) Not allowed to fill in the deductible but can fill in 50% of copayments

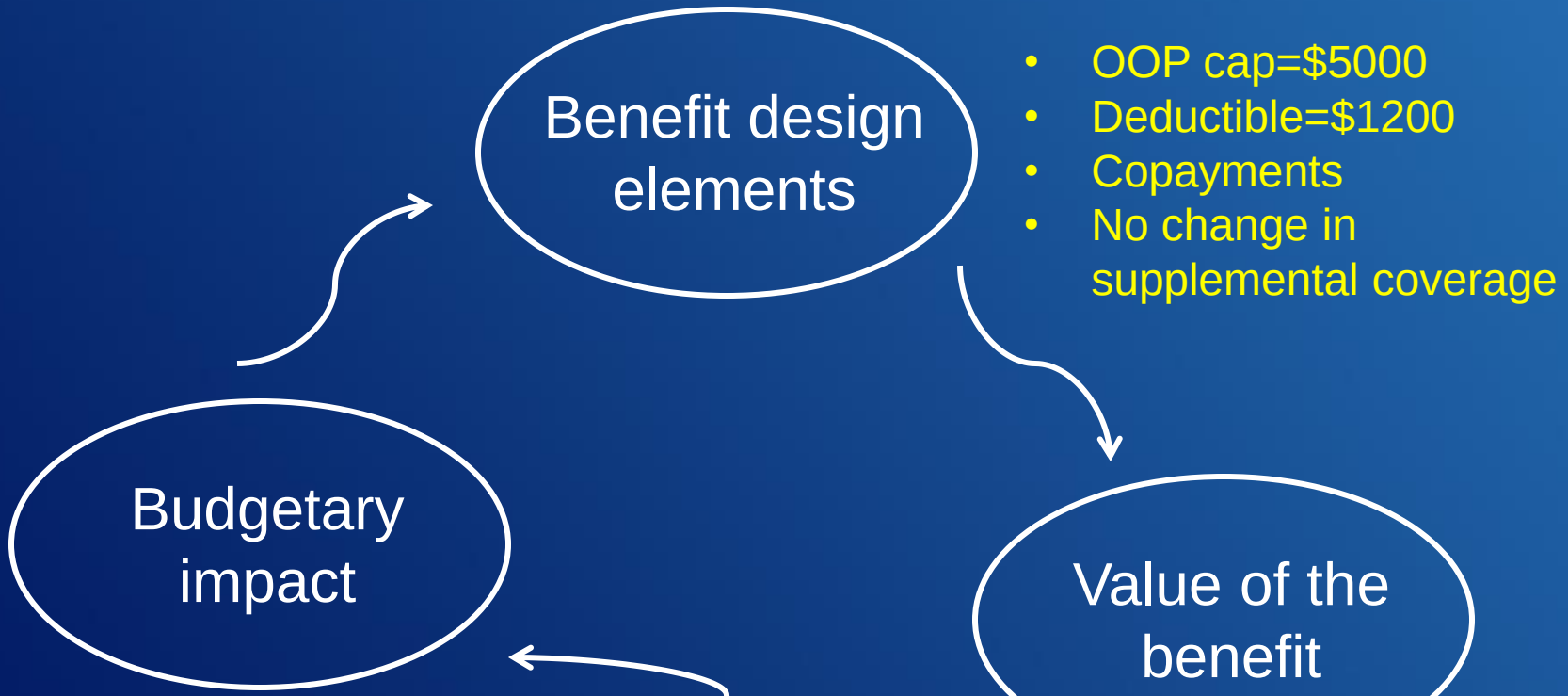
How does cost sharing affect service use?

- RAND Health Insurance Experiment
  - Cost sharing reduces the use of both effective and ineffective services
  - Cost sharing has no adverse effect on most participants but there were exceptions among the sickest and poorest individuals
  - Once patients chose to initiate care, cost sharing only modestly affected the intensity or cost of an episode of care
- Medicare beneficiaries with supplemental coverage tend to have higher service use

Analytical framework



Analytical framework: example



- OOP cap=$5000
- Deductible=$1200
- Copayments
- No change in supplemental coverage

- Program spending =same as current law

- Budget neutral

Modeling approach: basic assumptions

- Two sets of behavioral assumptions—how beneficiaries change their use of services in response to changes in cost sharing
- Assumptions on supplemental coverage
  - Average annual premiums of $2100 for medigap and $1000 for employer-sponsored retiree plans
  - Beneficiaries do not switch in response to changes in benefit

Modeling illustrative benefit package under alternative supplemental coverage options

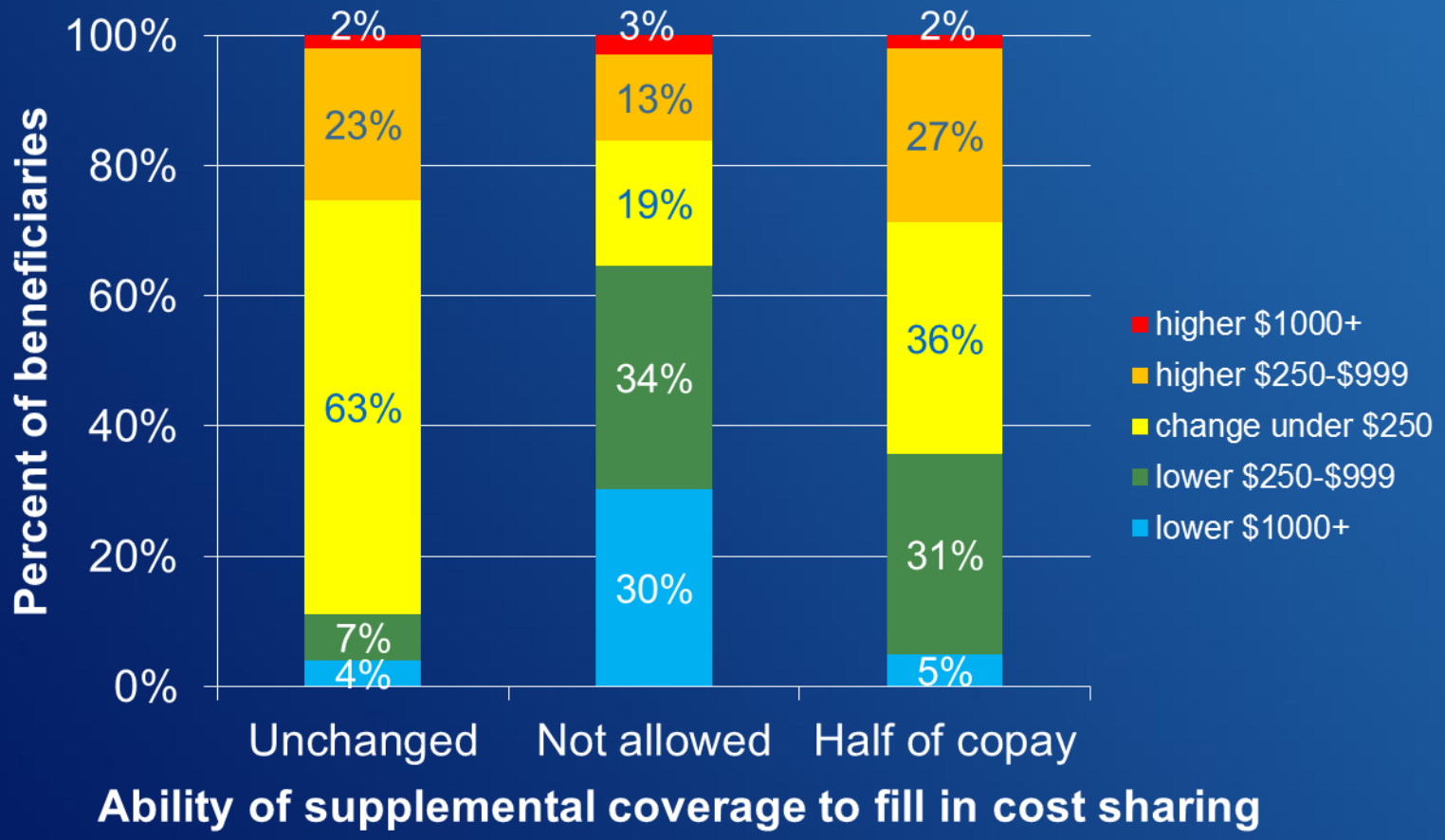
MA – neutral benefit package	
OOP maximum	$5000
A & B deductible	$750
Hospital	$600 per stay
Physician	$25 per visit
Outpatient	$100 per visit
SNF	$100 per day
DME	20%
Hospice	0%
Home health	5%*

Note: We simplified the $150 copayment considered by the Commission as a 5% coinsurance on home health services for simplicity.

Ability of supplemental coverage to fill in Medicare's cost sharing:

1) Remaining unchanged
2) Not allowed to fill in any cost sharing
3) Not allowed to fill in the deductible but can fill in 50% of copayments

Changes in Medicare OOP spending and premiums under 3 supplemental coverage policies, 2009



Note: Beneficiaries included in this analysis were enrolled in both Part A and Part B for the full year and not enrolled in private Medicare plans and Medicaid.
Source: MedPAC based on data from CMS.

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Impacts vary by level and mix of service use and supplemental coverage

- Total OOP spending decreased by more than $250
  - Above catastrophic cap with Medicare only
  - Hospitalization with Medicare only
  - Liability < premium on supplemental insurance

- Total OOP spending increased by more than $250
  - High Part B spending and no hospitalization with Medicare only
  - High spending but below catastrophic cap with supplemental coverage

Budgetary implications

Change in annual program spending

Options related to supplemental coverage	Under elasticity assumptions	Under induction factors
Unchanged	+2%	+1%
Not allowed	-2.5%	-1.5%
Half of copay	-1%	-0.5%

Caveats and limitations

- Sensitive to behavioral assumptions
- Simplifying assumptions on supplemental coverage
  - Average premiums
  - No switching
- Limited scope of our modeling
  - Excluded dually-eligible beneficiaries
  - Applied consistent policy to both medigap and employer-sponsored retiree plans
- Does not capture the value of insurance for risk-averse beneficiaries

Other approaches

- Instead of restructuring what supplemental insurance can do…
- Apply excise tax to supplemental insurance plans
  - Both medigap and employer-sponsored retiree plans
  - Based on the generosity of the coverage

Questions for discussion

- Basic structure of the benefit package
  - OOP cap / combined deductible / copayments
  - Tradeoffs among design elements
- Overall value of the benefit package and budget neutrality
- Supplemental coverage
  - Allow / restrict
  - Medigap and employer-sponsored retiree plans
  - Restructure supplemental insurance or apply excise tax