Benefit redesign: The role of provider prices in determining the cost of private-plan Medicare insurance relative to fee-for-service Medicare

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Motivation for today's presentation

- The cost of private plan insurance is affected by rates plans pay providers
- This paper explores lessons from the Medicare Advantage (MA) program regarding provider rates
  - Effect of competing with FFS Medicare on provider rates
  - Effect of protections on rates for emergency services

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Hospitals' rates could affect insurance premiums

- Medicare FFS hospital rates are roughly 30 percent lower than commercial rates
  - Sometimes Medicare > commercial
  - Usually commercial > Medicare
- Hospital services account for 30 percent of Medicare expenditures
- Therefore, if MA plans paid commercial private insurer rates, they would be at a competitive disadvantage with FFS

Data sources on how MA plans pay providers

- Insurer data on MA plan bids
- Financial data from hospitals
- The literature and discussions with market participants (e.g., actuaries)

Medicare Advantage (MA) bid data

- MA plan bids report the plan’s expected cost of part A & B services
- If MA plans are paying commercial rates to hospitals, we would expect to see higher bids in markets with high commercial rates
- We do not find a relationship between bids and commercial rates. This suggests MA plans do not pay the same rates as other private insurers

Other data sources

- Hospital data suggest profits on MA patients equal profits on FFS Medicare
- This suggests that MA rates are close to FFS Medicare rates on average
- Market participants confirm that the rates negotiated between MA plans and hospitals are often anchored to FFS rates
- This suggests MA hospital rates are 30 percent lower than other private rates

Why do MA plans tend to pay 30 percent less than commercial rates?

- Competition with FFS forces MA plans to limit provider rates and keep bids competitive
- Hospitals must accept FFS rates for MA patients' out-of-network emergency services
  - MA plan is not at risk for high out-of-network emergency rates if hospital is not in the network
  - Beneficiaries are not at risk for balance billing
  - May encourage hospitals to join networks rather than bill MA plans out-of-network rates

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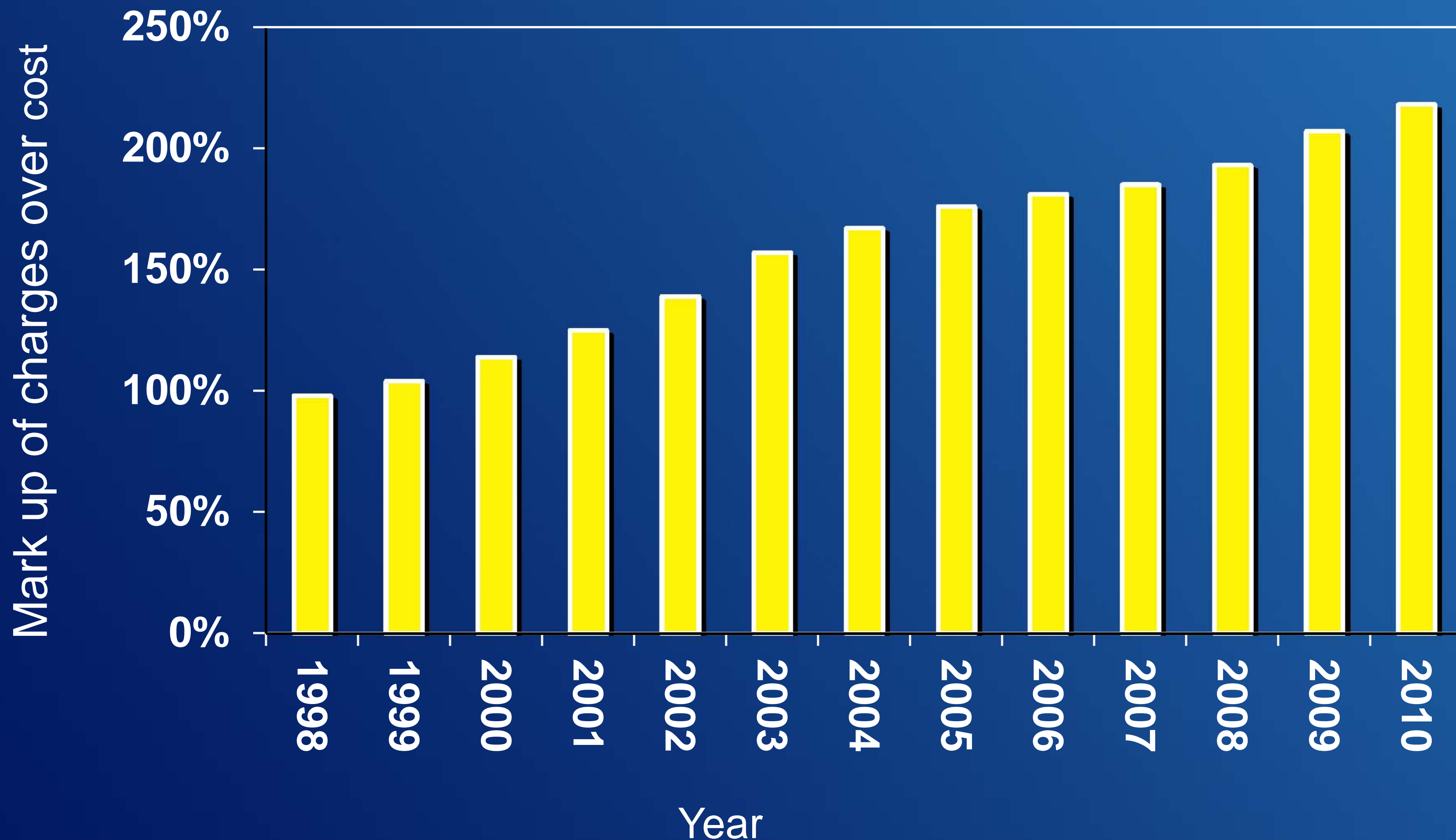
Illustrative example: Hospitals have less incentive to negotiate with commercial insurers

Type of insurer	Commercial HMO (e.g., Kaiser)	Commercial PPO
Potential scheduled admissions if in network	0	200
ED admissions	200	200
Cost per discharge	$5,000	$5,000
Revenue for all admissions negotiated rate (140% of cost)	$1,400,000	$2,800,000
Revenue at full charges for ED admissions only	$3,000,000	$3,000,000

Importance of protections against full charges has grown over time



MEDPAC Source: MedPAC analysis of hospital cost report data

Can we get the same results by just encouraging competition?

- Literature finds hospital market power leads to higher rates
- More competition could reduce rates, however
  - FTC has had limited success slowing hospital consolidation
  - Difficult to actually increase competition
- Not clear that greater competition will result in 30 percent lower rates
  - 9 percent lower in insurer-dominated markets

Summary

- Provider rates affect insurance premiums
- The ability of MA plans to pay FFS rates may depend on MA plans competing with FFS and out-of-network price protections for emergency services
- Not clear other mechanisms could keep rates at current MA levels

Discussion of MA plans and prices

- Past experience with MA plans
- Effect of FFS competition on MA plans and provider rates
- Effect of ED price protections on MA plans' negotiated rates with providers