



Advising the Congress on Medicare issues

Benefit design: competitively-determined plan contributions

Julie Lee and Scott Harrison
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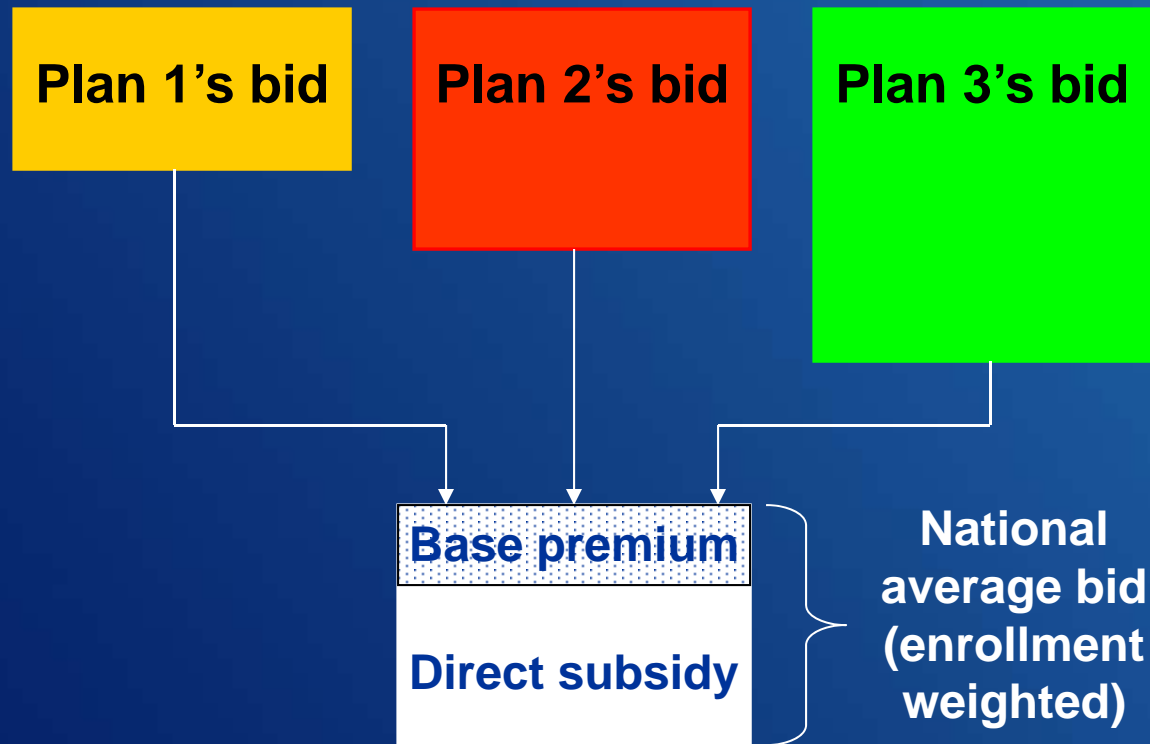
Outline for today's presentation

- Defining “competitively-determined plan contributions”
- Example in current Medicare: Part D
- Design issues
- Additional questions

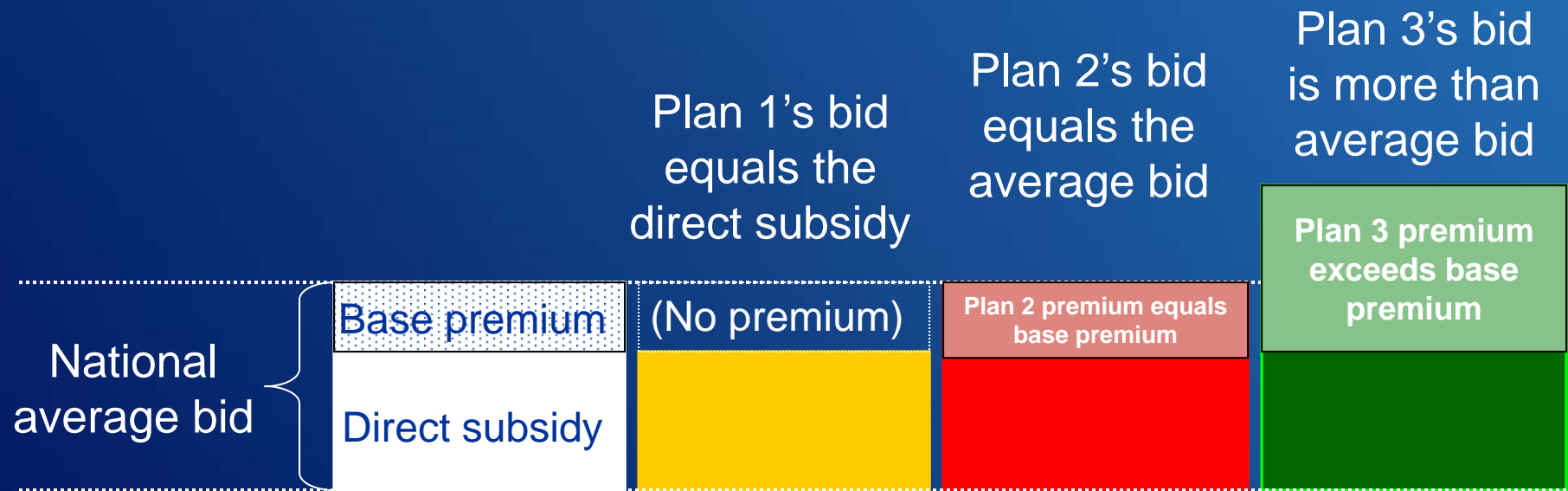
Defining competitively-determined plan contributions (CPCs)

- Common principles
 - Federal contribution to buy Medicare coverage would be competitively determined
 - Individual premiums would vary depending on the beneficiary's choice of coverage and the level of the federal contribution

Medicare Part D illustrates a CPC approach



Plans' bids determine enrollee premiums under Part D



Design issues

- Should the benefit package be standardized?
- How should the federal contribution be determined?
 - Based on plan bids vs. predetermined
 - National vs. local
 - Include FFS Medicare as a bid vs. not

Design issue: standardized benefit

Degree of standardization	Same services Same cost sharing	Same services Vary cost sharing	Actuarially equivalent package
Potential for risk selection	Low	Some	Maximum
Flexibility in plan design	None	Some	Maximum
Beneficiary perspective	Limited choice; Easy to compare plans	More choice; Not as easy to compare plans	Maximum choice; Difficult to compare plans
Example	Medigap	Part C (Medicare Advantage)	Part D*

* In practice, Part D plans are subject to some limitations in plan design, such as requirements on the formulary.

Design issue: federal contribution amount

- Based on plan bids vs. predetermined

Plan bids

- Contribution=(e.g., 87.5% of average bid)
- Reflect market conditions
- Less predictable program spending
- Less risk for beneficiaries

Predetermined

- Fixed dollar contribution=(e.g., \$8000) indexed to growth factor (e.g., GDP)
- Predictable program spending
- Beneficiaries at risk for increasing costs

Design issue: federal contribution amount

- National vs. **local**

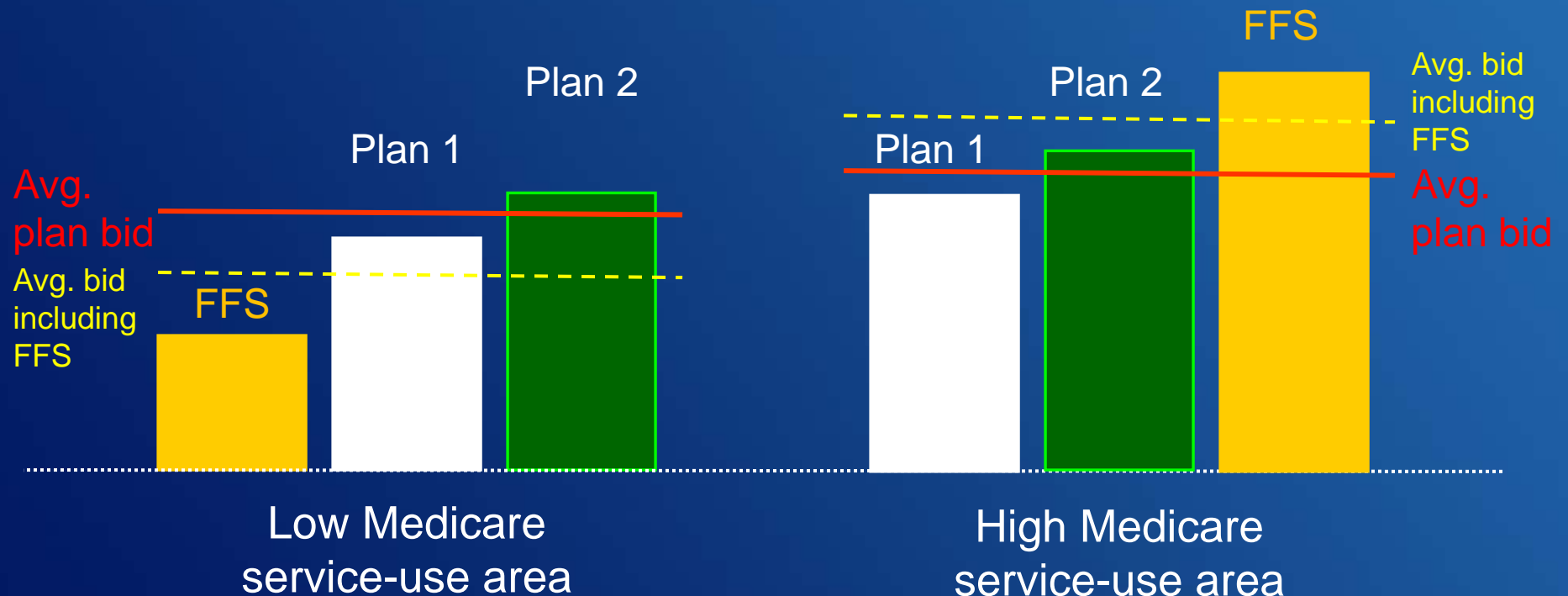
	Average monthly cost for Part A & Part B benefit (bids)	Federal contribution: 87.5% of national cost (800*0.875=700)	Beneficiary premium: monthly cost – federal contribution (bid-\$700)
Area 1	\$680	\$700	-\$20
Area 2	\$800	\$700	\$100
Area 3	\$920	\$700	\$220

	Average monthly cost for Part A & Part B benefit (bids)	Federal contribution: 87.5% of local cost	Beneficiary premium: monthly cost – federal contribution (bid*0.125)
Area 1	\$680	\$595	\$85
Area 2	\$800	\$700	\$100
Area 3	\$920	\$805	\$115

Note: Illustration assumes a national average benefit cost (bid) of \$800 per month.

Design issue: federal contribution amount

- Include FFS Medicare as a bid vs. not



Implications for beneficiaries and plans

- Beneficiaries would pay different amounts for FFS Medicare across areas
- Plan participation and availability would vary across areas

Additional questions

- What is the role of FFS Medicare?
- What provision should be made to ensure access for low-income beneficiaries?

Role of FFS Medicare

- Beneficiary can have FFS as an option
- FFS can be included as a bid in contribution calculation
- Medicare payment rates can exert downward pressure on plan bids

Low-income beneficiaries

- Eligibility
- Subsidy amount
- Plan assignment and beneficiary opt-out
- Medicare and Medicaid coordination of benefits for dual eligibles
- State obligation to pay beneficiary premiums and cost sharing
 - New premium and cost-sharing levels will result in changes across states from current expenditures

Next steps

- Effects of FFS Medicare on private plan bids
- Importance and adequacy of risk adjustment
- Empirical analysis of design elements
- Issues regarding low-income beneficiaries