

Reforming Medicare's benefit design

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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

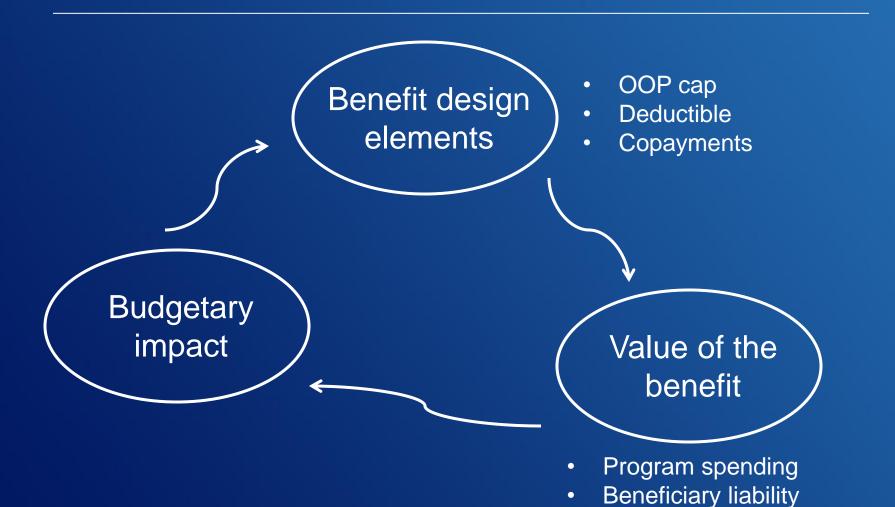
- Role of supplemental coverage
- Analytical framework
- MA neutral package, with supplemental coverage
 - 1) Remaining unchanged
 - 2) Not allowed to fill in any cost sharing
 - 3) Not allowed to fill in the deductible but can fill in 50% of copayments

How does cost sharing affect service use?

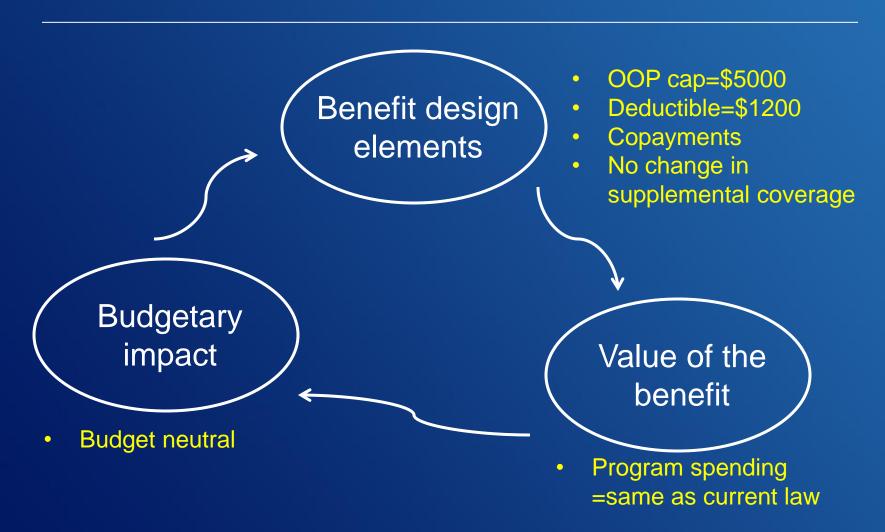
- RAND Health Insurance Experiment
 - Cost sharing reduces the use of both effective and ineffective services
 - Cost sharing has no adverse effect on most participants but there were exceptions among the sickest and poorest individuals
 - Once patients chose to initiate care, cost sharing only modestly 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



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.

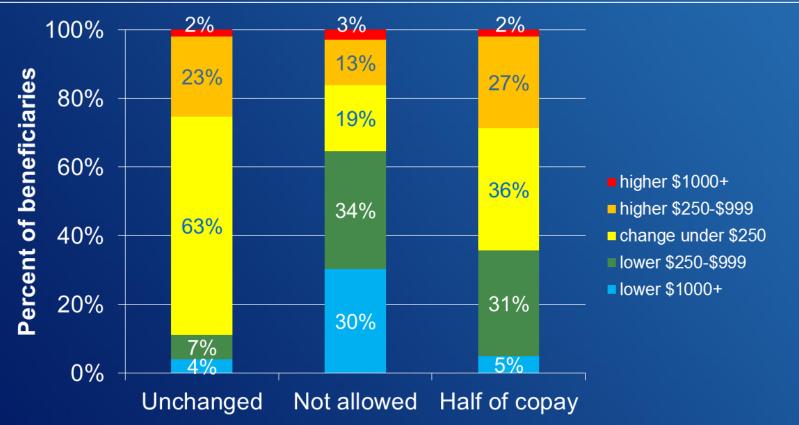
Ability of supplemental coverage to fill in Medicare's cost sharing:

- 1) Remaining unchanged
- 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



Ability of supplemental coverage to fill in cost sharing

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.



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 riskaverse 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

