



Advising the Congress on Medicare issues

Variation in private-sector payment rates

Carlos Zarabozo and Julie Lee

April 6, 2012

Private-sector payment rates in relation to Medicare

- For physician services, comparison of Medicare and private rates a component of MedPAC's yearly payment adequacy and access evaluation
- In the hospital sector, fiscal pressure in private sector found to affect Medicare margins: more fiscal pressure (lower private payer rates), better Medicare margins
- Medicare Advantage plans negotiate payment rates with providers, not bound by Medicare FFS payment rates

Summary of MedPAC findings to date on private payer payment rates

- Wide geographic variation in input-price-adjusted payment rates (prices) for physician and inpatient hospital services
- Hospital payments show greater variation
 - Ratio of 90th to 10th percentile in metro areas: 1.9 (inpatient hospital); 1.5 (physician services)
- Variation in payment rates for physician services differed by type of service
 - Ratio of 90th to 10th percentile in metro areas: Office visits, 1.5; imaging, 3.1
- No strong pattern of correlation between rates for physician services and those for hospital services
- Literature, and our market-specific analyses, show provider consolidation leading to higher prices

Private-sector payment rates and the Medicare Advantage program

- MA plans are not bound by Medicare FFS payment rates. Plans negotiate rates with providers.
- Hypothesis: Private payer prices are reflected in MA bids.



Factors affecting MA bids

Private payer prices

- Physician price index
- Hospital price index

Other factors

- Medicare FFS service use
- MA benchmarks (expressed as percent of FFS)

MA bids as percent of FFS

- Average bid for Medicare A/B services
 - Price times quantity for mix of services

Data sources and time frames

Medicare data

- MA bids submitted in June, 2009, for contract year 2010
- Year 2010 FFS rates and benchmarks
- Adjusted service use data for 2006-2008

Private pay data

- MedPAC calculation of relative inpatient hospital and physician price indices 2008 (MedPAC analysis of Thomson Reuters MarketScan® Commercial Claims and Encounter Data, © Copyright 2009 Thomson Reuters (MedPAC June 2011 report))

Determining an area average MA bid

- “Local” plans, HMOs and PPOs, in metropolitan areas
- Certain areas excluded and certain plan types excluded
- All bids for an area weighted by actual county-level enrollment for counties included in plan service area
- Assumption: Bid-to-FFS ratio for the entire bid treated as applying uniformly across counties for a multi-county bid

Example of assumption in assigning bid to a county

	(A) Used for analysis: Metro bid-to-FFS ratio overall, applied uniformly to each county, weighted by metro area enrollment	(B) 3-county X-Y-Z metro area: Actual bid-to-FFS ratio if plan were to serve each county individually (separate bid by county)		
		County X	County Y	County Z
Plan A	1.05 bid ratio over one county	NOT COVERED	NOT COVERED	1.05
Plan B	.95 bid ratio over two counties	NOT COVERED	1.00	.90
Plan C	1.0 bid ratio over three counties	1.10	.95	.95
All plans combined	If each plan has the same total enrollment in the metro area, each plan's bid ratio (Column (A)) has equal weight. Multi-plan metro-level bid ratio is therefore 1.0: $(1.05 + .95 + 1.0)/3 = 1.0$			

Results of preliminary analysis

- On average across areas, weak positive relationship between relative prices in private sector and MA bid levels
- Other factors have a greater influence
 - Relative level of service use in FFS Medicare
 - MA benchmark levels

Factors associated with the level of MA bids

Highest level of correlation is between bid level and FFS service use (negative), and benchmark level in relation to FFS (positive)

- *High relative service use* \longleftrightarrow *lower bid as percent of FFS*
- *High benchmark* \longleftrightarrow *higher bid as percent of FFS*

Small positive correlation with private prices (*higher relative prices* \longleftrightarrow *higher bids*)

Correlation between MA bid as a percent of FFS and other factors

Plan type	Medicare-specific factors		Private pay factors	
	Medicare FFS use index	Benchmark-to-FFS ratio	Physician price index	Hospital price index
HMO	-0.70	0.57	0.34	0.17
PPO	-0.53	0.54	0.21	0.20

Discussion

- Comments on results
- Additional considerations in analysis
 - Different approach
 - Other factors to consider (e.g., number of competing plans in an area)
- Information on negotiations between MA plans and providers