Synchronizing Medicare policy across payment models: Determining beneficiary premiums

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March 5, 2015

Review of previous presentations

- There are different payment models in Medicare—FFS, MA, and ACOs
- Payment rules are different across those models
- No one payment model is uniformly less costly to the program in all markets
- Previously focused on equalizing spending benchmarks across payment models

Outline of today's presentation

- Beneficiary perspective
- Policy context
- Analytical framework
- Two market areas
- Three illustrative examples for calculating beneficiary premiums
- Caveats to our analysis

Beneficiary perspective under current law

	Traditional FFS Medicare	Accountable care organizations (ACOs)	Medicare Advantage (MA)
Beneficiaries	• Medicare benefit package • Any participating provider • Can have supplemental coverage	• Same as under FFS • Attributed to an ACO • Providers can informally encourage staying within the ACO	• Get extra benefits if the plan bid is less than the MA benchmark • Need to enroll • Limited network of providers or in-network incentives

Policy context

- Commission's work on creating incentives for providers and private plans to improve quality and efficiency
- Beneficiaries also have a role
- Create financial incentives for beneficiaries to choose efficient models
- Potential savings in program spending can be shared with taxpayers and beneficiaries

Analytic framework for calculating beneficiary premiums

- Define a market area
  - Core-based statistical areas (CBSAs)
  - Health services areas
- Calculate average FFS spending
  - Per beneficiary per month, standardized for average health status
- Recalculate MA plan bids
  - Current MA plan bids for 2015
  - Convert to market area
- Assume quality is constant among beneficiary choices

Two market areas, 2015

Characteristics	Portland, OR	Miami-Dade, FL
Number of Medicare beneficiaries (in thousands)	283	419
Average monthly FFS spending	$626	$1151
Number of MA plan bids	23	27
MA penetration rate	57%	62%
Median MA plan bid Average MA plan bid	$703 $715	$743 $755
Number of counties in market area	5	1

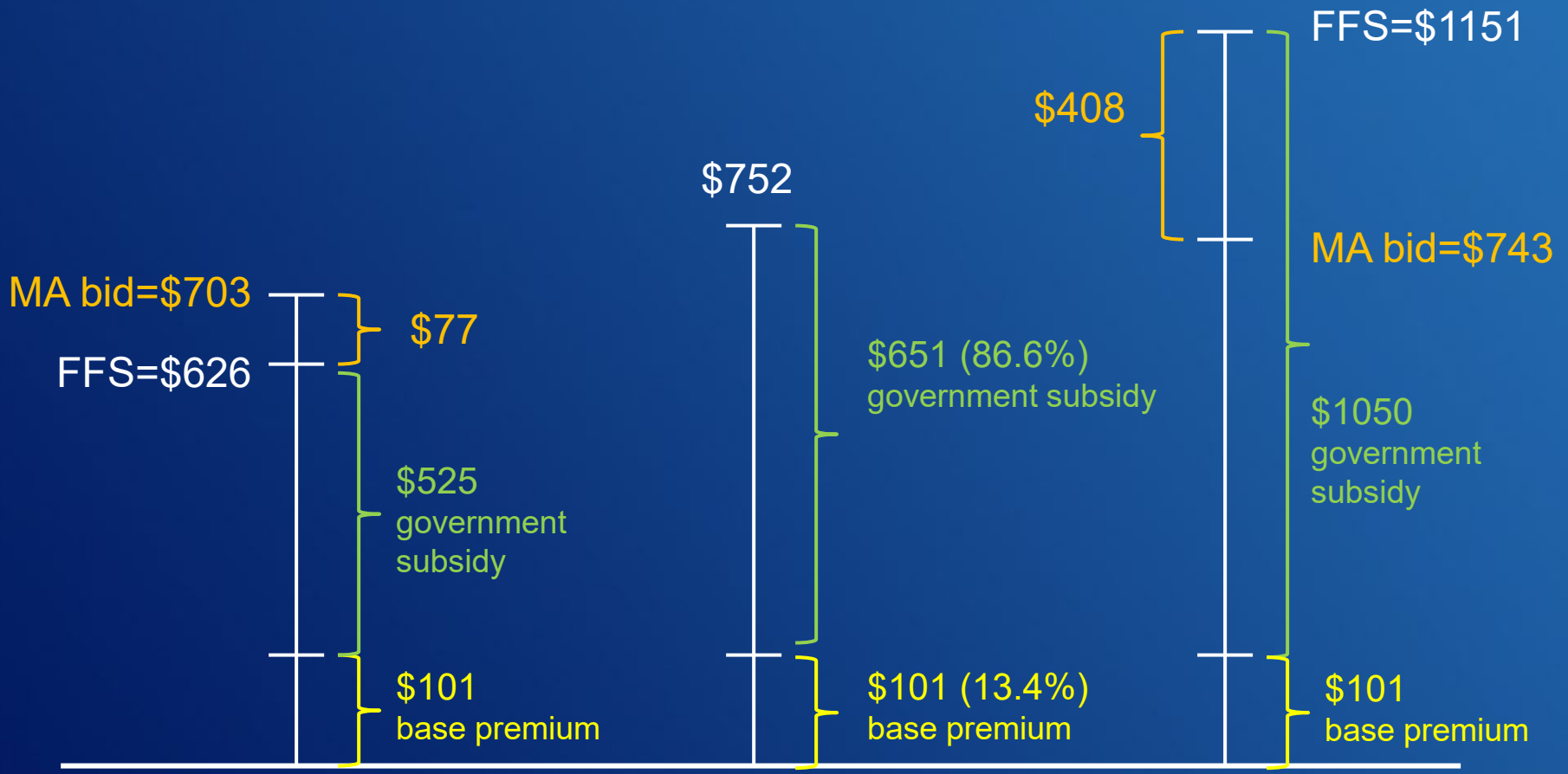
Note: FFS (fee-for-service), MA (Medicare Advantage). FFS spending for 2015 is projected and excludes hospice, direct graduate medical education, and indirect medical education payments. FFS spending and MA plan bids are per month per beneficiary and standardized for a beneficiary of average health status. Market areas consist of core-based statistical areas and health services areas in 50 states and the District of Columbia. Number of Medicare and MA penetration rate are as of January 2015.

Source: MedPAC analysis of MA plan bids for 2015 and MA enrollment data for January 2015.

Three illustrative examples for calculating beneficiary premiums

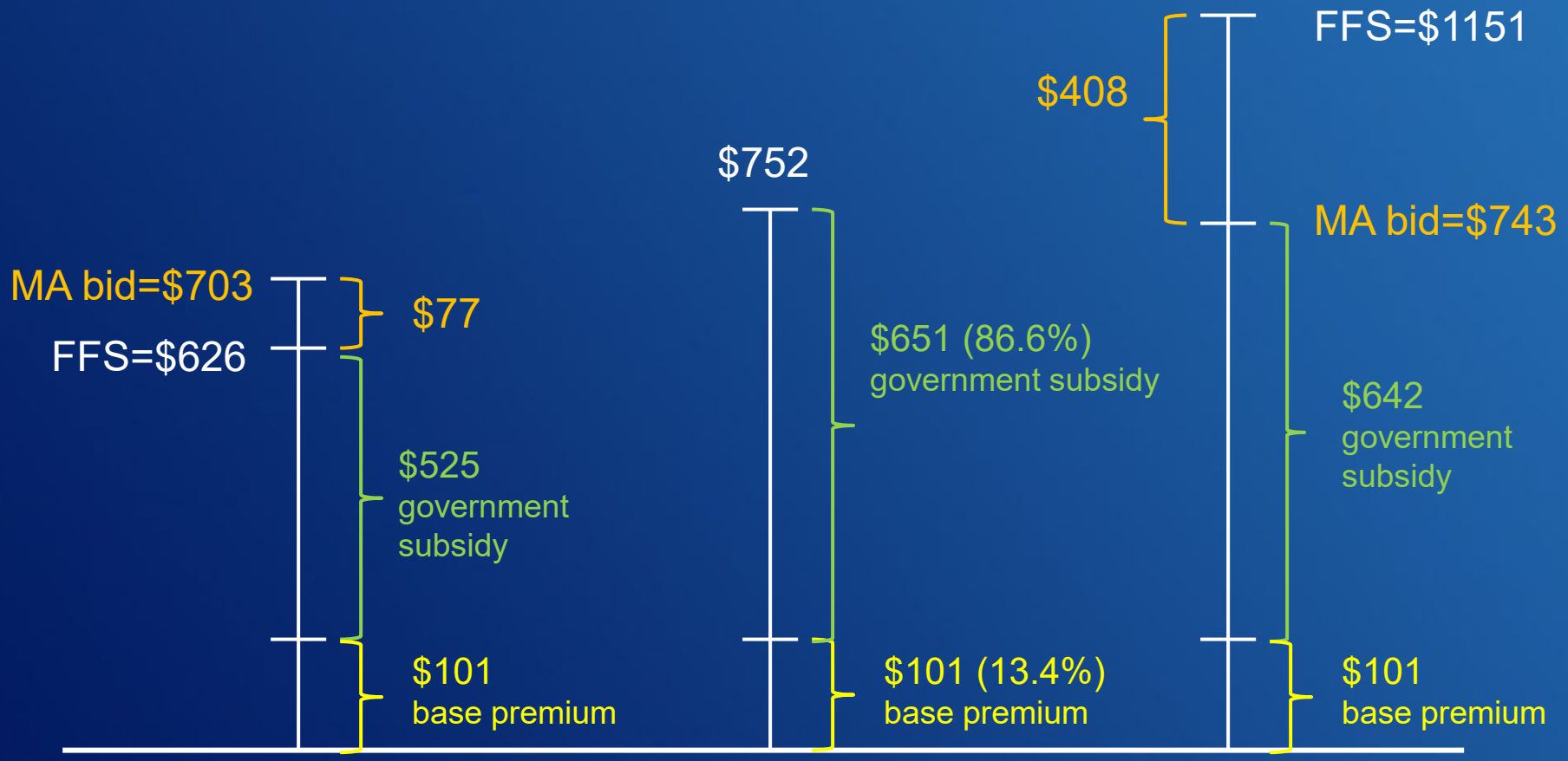
1) Nationally-set base premium buys FFS Medicare in every market
2) Nationally-set base premium buys either FFS Medicare or reference MA plan—whichever is lower cost—in each market
3) Locally-set base premium buys either FFS Medicare or reference MA plan—whichever is lower cost—in each market

Beneficiary premiums: Nationally-set base premium buys FFS



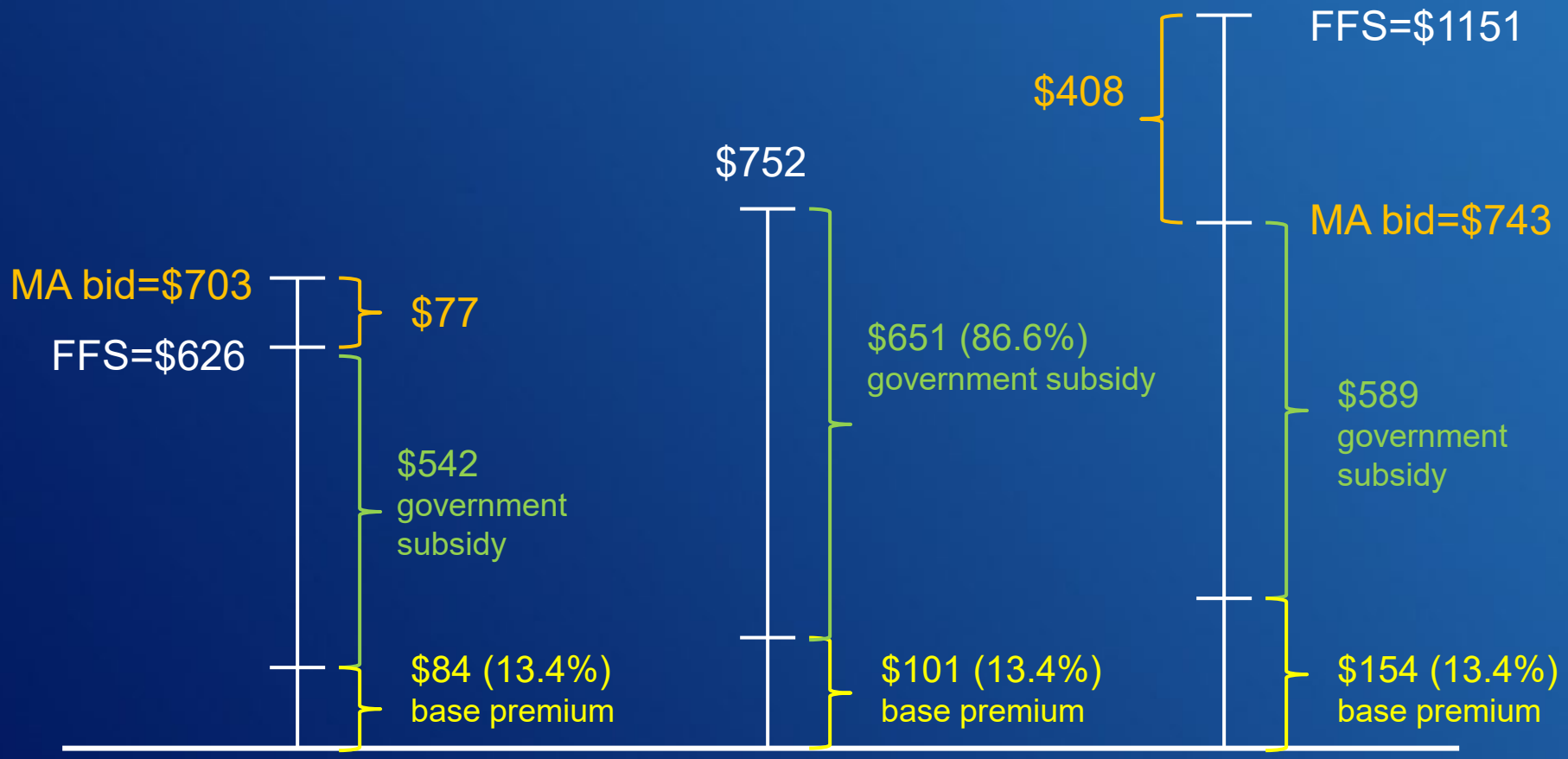
MEDPAC

Beneficiary premiums: Nationally-set base premium buys lower of FFS or MA



MEDPAC

Beneficiary premiums: Locally-set base premium buys lower of FFS or MA



Beneficiary premiums: Summary of illustrative examples

Illustrative example	Portland, OR	Miami-Dade, FL
1) Nationally-set base premium buy FFS Medicare in every market		
Beneficiary premium	$101 (FFS)	$101 (FFS)
Government subsidy	$525	$1050
2) Nationally-set base premium buys either FFS Medicare or reference MA plan—whichever is lower cost—in each market		
Beneficiary premium	$101 (FFS)	$101 (MA)
Government subsidy	$525	$642
3) Locally-set base premium buys either FFS Medicare or reference MA plan—whichever is lower cost—in each market		
Beneficiary premium	$84 (FFS)	$154 (MA)
Government subsidy	$542	$589

Beneficiary premiums: Summary of illustrative examples (cont.)

Beneficiary premium	Portland, OR	Miami-Dade, FL
Example 1		
FFS	$101	$101
MA plan	$178	-$307
Example 2		
FFS	$101	$509
MA plan	$178	$101
Example 3		
FFS	$84	$562
MA plan	$161	$154

- In some markets, FFS would have higher premiums; in other markets, MA would have higher premiums
- Different approach in Example 1 v. 2 and 3
  - In #1, the only potential for savings is where MA < FFS
  - In #2 and #3, Medicare only pays for the lower cost option

Caveats to our analysis

- Assumed quality is constant among beneficiary choices
- There is a distribution of MA plans available in a market area, not just FFS and a single MA plan
- Static analysis
  - Assumed current plan availability—plans will bid differently if rules change
  - Individual beneficiaries will choose differently
- Examples do not represent all possible design choices
- Need to consider how to moderate policy impact—transition, sharing of potential savings between the program and the beneficiary

Questions for discussion

- Is the base premium set nationally or locally?
- Which Medicare option would the base premium buy?
- How to share potential savings in program spending?