Advising the Congress on Medicare issues

Reforming Medicare's benefit design

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Outline of today's presentation

- Policy objectives
- Key design issues
- Illustrative benefit package
  - With and without a surcharge on supplemental insurance
  - Budgetary and distributional effects
- Chairman's draft recommendation

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

Design issues: cost sharing

- Out-of-pocket maximum
  - Provides insurance protection against very high Medicare costs
- Combined deductible for Part A and Part B services
  - Raises issues related to separable participation in Part A and Part B, and different sources of financing for Part A and Part B
- Copayments for services
  - Allows for degree of variation to create incentives
  - Secretarial authority to vary copayments based on value of services as evidence becomes available over time

More beneficiaries would benefit from OOP maximum over time

Percent of full-year FFS beneficiaries	2009	2006-2009
1+ hospitalizations	19%	46%
2+ hospitalizations	7%	26%
$5,000+ in annual cost-sharing liability	6%	13%
$10,000+ in annual cost-sharing liability	2%	4%

Note: Includes beneficiaries who were enrolled in FFS Medicare for 4 full years, from 2006 to 2009. Excludes those who had any months of Medicare Advantage enrollment.

Design issues: budget constraint

- Overall cost of the benefit design depends on the level of cost sharing of the benefit package
- Budgetary target for the new package limits design combinations that are feasible
- There are many different solutions

Design issues: supplemental insurance

- Want to create incentives to discourage use of lower-value services
- Higher cost sharing reduces both effective and ineffective services
- Within FFS, changing cost sharing may be the only policy tool available
- Mitigate the effects of first-dollar coverage
  - Regulatory approach
  - Surcharge on supplemental policies

Illustrative FFS benefit package

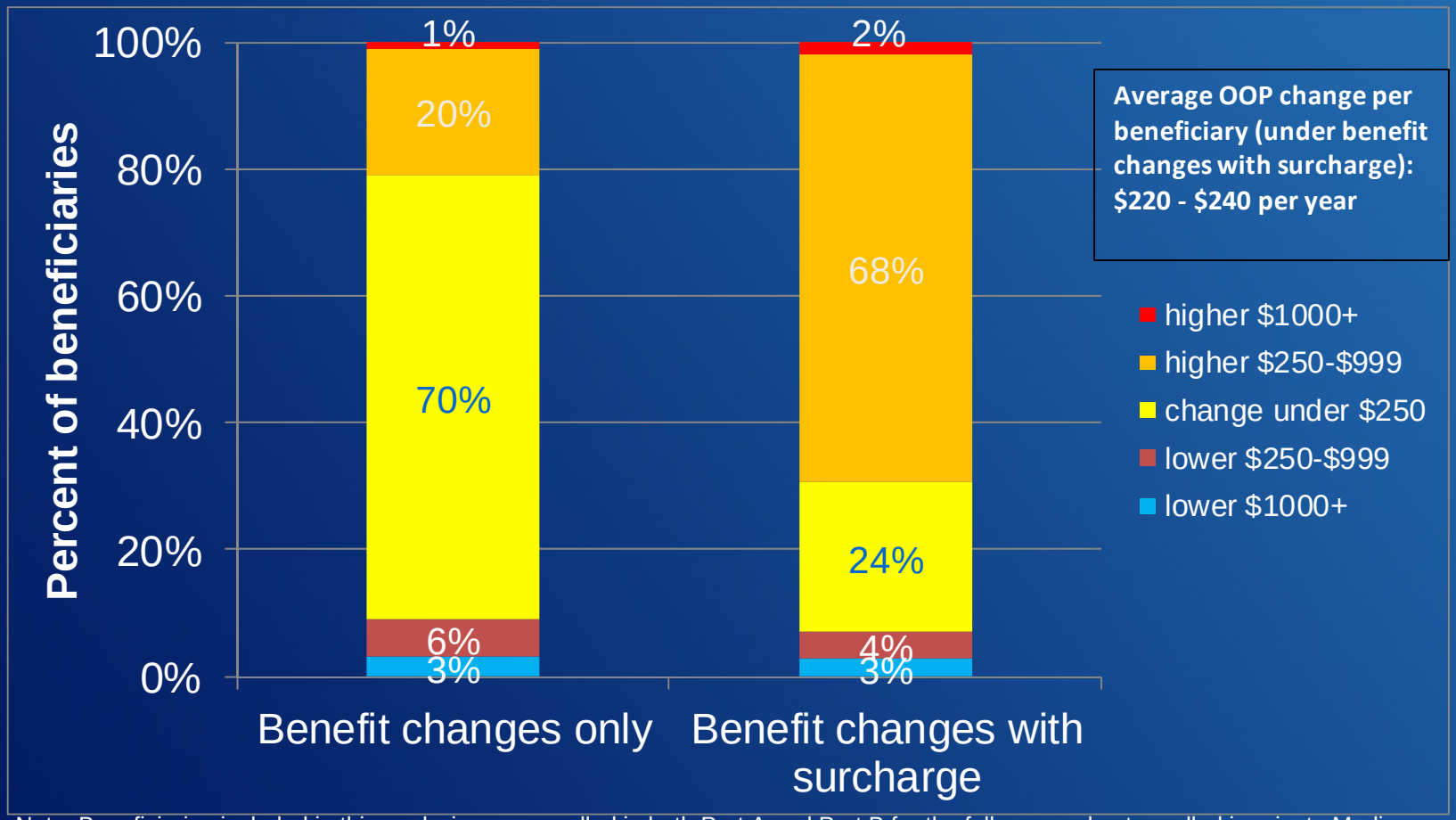
Design elements	"Beneficiary-neutral" package
OOP maximum	$5000
A & B deductible	$500
Hospital (per stay)	$750
Physician – PCP/specialist (per visit)	$20/$40
Part B drugs	20%
Advanced imaging (per study)	$100
Outpatient (per visit)	$100
SNF (per day)	$80
DME	20%
Hospice	0%
Home health (per episode)	$150*

Note: We modeled the $150 copayment considered by the Commission as 5% coinsurance on home health services for simplicity.

Illustrative benefit: budgetary effects

Policy change	Change in Medicare program spending in 2009	Modeling assumptions
Illustrative benefit package	+1%	• 1-year snapshot of relative changes using 2009 data • Excludes dual-eligible beneficiaries • Specific set of behavior assumptions on use of services • On supplemental coverage, simple assumptions of average premiums and no switching among beneficiaries with supplemental coverage • No change in medigap premiums
20% surcharge on supplemental insurance	-1.5%	• Simplifying assumption of 20% on average premiums • 3% of beneficiaries with supplemental coverage would drop

Changes in Medicare OOP spending and premiums under the illustrative benefit package, 2009



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 or Medicaid.
Source: MedPAC based on data from CMS.

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Other issues

- Would the new benefit apply to all beneficiaries or new beneficiaries?
- How would a combined deductible affect beneficiaries enrolled in only Part A?
- How would the new benefit change Part B premiums?