

Standardization issues in premium support

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Outline of the presentation

- Definition of terms
- Rationale for standardization
- Aspects of standardization in current programs
- Applicability in a premium support system
- Other related issues

Standardization in health insurance

- Complete standardization: The product offered by one insurance company is exactly the same as the product offered by all its competitors
- Standardization of specific elements
 - Benefits (100 skilled nursing facility days covered)
 - Cost sharing (\$164.50 copay per SNF day after day 20)
 - Offerings (all coverage variants are prescriptively determined; e.g., only other SNF coverage option is covering 150 SNF days, but not other variants)

Actuarial equivalence (AE)

- In cost sharing, one insurance product is actuarially equivalent to another if average overall cost sharing is equal
- For example, in Medicare Advantage, basic MA bid must have cost sharing equal to Medicare FFS. Plan can meet requirement by
 - Mirroring FFS on a service-by-service basis
 - Using actuarially equivalent cost sharing
 - If FFS average is \$100 per person per month, MA bid would include cost sharing that averages \$100 per member per month

Advantages/drawbacks of standardization

- Facilitates beneficiary decision making
 - Clear price signals about relative premium costs and what is covered (“apples to apples”)
- Ensures a level playing field among plans
- Helps prevent selection strategies based on benefit design (designing benefits to attract healthier enrollees/avoid sicker populations)
- Facilitates program oversight and monitoring
- Can be designed to ensure an adequate benefit
- **DRAWBACKS:** Limits plan flexibility and may limit beneficiary choice

Standardization in Medigap

Benefits

✓ **Standardized:** *One company's plan F has the same benefits as any other company's plan F*

Cost sharing

✓ **Standardized:** *One company's plan F has the same service-by-service cost sharing as any other company's plan F*

Plan offerings

✓ **Standardized:** *Only the 10 allowed packages*

Standardization in Part C (Medicare Advantage)

| | Basic bids plans submit | Other plan offerings |
|----------------|---|---|
| Benefits | <p>✓ Standardized: <i>Plans required to bid on the Medicare benefit package</i></p> | <p>✓ Standardized: <i>Medicare benefits in all offerings</i></p> <p>NOT standardized: <i>Non-Medicare benefits</i></p> |
| Cost sharing | <p>✓ Standardized (same as FFS) or AE/Actuarially equivalent</p> | <p>NOT standardized: <i>cost sharing in offerings not standardized, but</i></p> <ul style="list-style-type: none"> • For Medicare services, actuarial value must be \leq to FFS • Rules regarding discriminatory cost sharing |
| Plan offerings | <p>✓ Standardized : <i>Bidding on the Medicare FFS benefit package,</i></p> <p>BUT</p> <p>NOT <i>required to offer a basic package</i></p> | <p>NOT standardized</p> |

Standardization in Part D (Medicare prescription drug coverage)

| | Basic (standard) plans | Other plan offerings (enhanced) |
|-----------------------|--|--|
| Benefits | <p>✓ Standardized (to a certain extent): <i>Plans required to cover specified classes of drugs</i></p> | <p>✓ Standardized: <i>All classes covered</i></p> <p>NOT standardized: <i>Expanded coverage (enhanced benefits)</i></p> |
| Cost sharing | <p>✓ Standardized (same as) or AE/Actuarially equivalent</p> | <p>NOT standardized</p> |
| Plan offerings | <p>✓ Standardized</p> <p>AND</p> <p>Required to offer standard/AE package</p> | <p>NOT standardized</p> |

Standardization in Medigap, Part C and Part D

| | Medigap | Part C | | Part D | |
|-----------------------|---------|--|-----------------|--|----------|
| | | Basic | Other offerings | Basic (standard) | Enhanced |
| Benefits | ✓ | ✓ | NOT | ✓ | NOT |
| Cost sharing | ✓ | ✓ or AE | NOT | ✓ or AE | NOT |
| Plan offerings | ✓ | ✓ If offering basic BUT Basic not required | NOT | ✓ or AE AND Standard offering required | NOT |

AE: actuarially equivalent

Design of a premium support model

| | |
|-----------------------|---|
| Benefits | ✓ Standardized |
| Cost sharing | ✓ Standardized (same as) or AE /Actuarially equivalent |
| Plan offerings | ✓ Standardized basic plan ✓ Standardized basic plan is an offering NOT standardized: Supplemental/optional plans permitted |

Standardized benefit in premium support

- Plan bids determine the government contribution and beneficiary premiums
- In our illustrative design, Medicare FFS is expected to be a competing plan in all markets
- Medicare FFS has a standard benefit package in each market area
 - Note that the Commission has recommended a redesign of the Medicare benefit package
- Plans bid on what it costs the plan to provide a package that can be compared across all plans
 - As in Part D, basic (standard) benefit is an offering available to beneficiaries

Standardized cost sharing in premium support

- Medicare FFS has specific levels of cost sharing—amounts not financed by government dollars
- The Part C bid, which is compared to a FFS benchmark, has standardized cost sharing (the same as, or actuarially equivalent to, FFS)
- As with standardized benefits, plans bid on what it costs the plan to provide a package that can be compared across all plans—including equivalent cost sharing

Caveats with cost sharing that is actuarially equivalent

- Cost sharing can be used as a means of seeking favorable selection, even though the actuarial equivalent standard is met
- Current statutory requirements, and CMS rules, set service-by-service limits on cost sharing for certain services
 - For example, MA cost sharing for chemotherapy administration cannot exceed FFS levels
- CMS monitors plan cost sharing and rejects bids that are potentially discriminatory

Difference between Part C and Part D: Offering a basic benefit package

- In Commission's examination of premium support, Medicare Advantage is a model for many of the design elements
- Part D in some ways is a better model—plan bids determine the government contribution, while in MA benchmarks are administratively determined
- In Part D, sponsors are required to offer (market) a standard benefit plan (or an actuarially equivalent plan)
- In Part C, an MA organization can require beneficiaries to buy “mandatory supplemental benefits”—no requirement that a basic package (= Medicare FFS) be offered

Advantages to offering a basic benefit

- Advantageous for beneficiaries
 - Can evaluate a plan directly comparable to FFS
 - Can buy a product that has no supplemental benefits (less costly than an enhanced plan; greater choice for beneficiaries)
- Advantageous to the program
 - Ensures clear identification of a bid that represents the plan's "best price" for a standardized benefit (the FFS package)

Limiting plan offerings

- Current CMS policy is to allow multiple offerings from one company in an area if there are “meaningful differences”
- Congressional Budget Office options paper assumed each sponsor would have up to two basic options, and each of those could have one enhanced package (CBO, September 2013)

Standardization in offerings beyond the basic plan

- Enhanced benefit packages, optional supplements, not precluded
- Arguments for
 - Proliferation of benefit designs part of the reason for Medigap standardization
 - Large variation in benefit designs in MA today
 - Standardization can facilitate beneficiary decision making (and program administration)
- Arguments against
 - Can lead to less plan innovation
 - May result in fewer beneficiary choices

Induced utilization in premium support

- In Part D, only standard/actuarially equivalent bids used to determine government contribution
- If cost sharing is decreased in Part D enhanced offerings, any additional utilization is not included in the bid used to determine the government contribution
 - Added cost built into member premium for buyers of enhanced product
- Part D different from Part C in this respect, but Part D approach consistent with Commission's recommendation to have an additional charge imposed on supplemental insurance in FFS Medicare to account for induced utilization

For discussion

- Comments on the structure laid out to inform the description in the June chapter
- Any additional issues to include in the June chapter