Economics and Politics of Medicare Advantage

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MA Increasingly Mainstream

- Growing share of Medicare beneficiaries
  - 30 percent in 2014
    - Higher for those with both Parts A and B
  - Enrollees have tripled since 2005
- High rates of enrollee satisfaction
  - Very low rates of disenrollment from MA
    - 2 percent
- Well-established star rating system for plan quality
  - Now higher payments for top quality plans
Strong Reasons for Attractiveness to Beneficiaries

• Economic dimension
  – Benefit design that includes catastrophic coverage
  – Premiums very attractive in relation to Medigap
    • But a portion of this comes from benchmarks in excess of traditional Medicare
• Quality dimension
  – Care coordination increasingly an element
    • But hard to assess quantitatively
    • If ACOs succeed in Medicare, they will become the key competitor to MA

Bring Policy in Line with Status

• Need for departure from administered pricing
  – Increasingly hard to do administered pricing well
    • “Tail wagging the dog” phenomena in more areas
    • Inherently unhealthy political process in setting benchmark rates
• MA no longer an “infant industry”
  – Lessons from U.S. history (and other developing countries)
    • Tariff protection for new manufacturing industries
    • Creation of organized interests to maintain the tariffs
Political Dynamics of MA Benchmarks (1)

- Private plans in Medicare started out with benchmarks slightly below traditional Medicare
  - Plans became extremely attractive to beneficiaries in very high spending areas
    - Extensive additional benefits for zero premium
  - Members of Congress in other areas wanted such options for their constituents
    - Floors for benchmarks

Political Dynamics of MA Benchmarks (2)

- Beneficiaries become constituency for higher benchmarks for MA
  - Along with insurance industry
  - Growth of MA enrollment expands constituency pressure for higher benchmarks
    - More beneficiaries
    - Larger part of revenue of insurance industry
  - Increasing contentiousness on how MA benchmarks compare to traditional Medicare (TM)
Additional Problems with Current Payment

- Addressing wide variation in payment across geographic areas
  - MA has led to beneficiary windfalls in areas with high Medicare FFS spending
    - Limited access to MA in areas with low spending
  - ACA has tweaked this by sorting areas into quartiles
    - Step in the right direction
      - But few would say problem has been solved
- Plans compete by maximizing benefits rather than by reducing premiums and increasing quality

From Administered Pricing to Market Pricing (1)

- Medicare Part D and the ACA premium credits examples of subsidizing private coverage using market pricing
  - Part D plans
    - Plans submit bid for basic coverage
    - Medicare payment based on national average bid
    - Enrollees pay the difference if plan bid is higher
    - Plans can offer richer benefits for additional premiums
From Administered Pricing to Market Pricing (2)

- Affordable Care Act premium credits more relevant
  - Standardize benefits by actuarial value
  - Plans set premiums for each metal tier
  - Amount of subsidies pegged to second lowest priced silver plan
  - Subsidies are area-specific and same for all plans in an area
    - Difference in subsidies across areas are market-determined

Market Pricing in Medicare Advantage

- Various elements can be incorporated into MA
  - How many elements should be incorporated initially?
    - Could have metal tiers with silver tier reflecting the current actuarial value of TM
      - Or plans could bid premiums for current TM benefits and offer richer plans (or leaner plans) with different premiums
        » Might require review that premium differences align with benefit differences
    - Bring features of ACA exchanges into MA
Treatment of TM in Market Pricing

• Bid for TM set by CMS Actuary
  – Reflects recent spending in TM updated by projection of trend
  – It will be higher than private plan bids in some areas
    • So benchmark could lead to higher payments to remain in TM
    • These areas have the most developed MA markets—so MA alternative likely to be attractive nevertheless

Supplemental Medicare Coverage

• Motivations for reform beyond MA
  – Medicare spending impacts
  – Interferes with approaches to engage beneficiaries in reformed payment approaches
• Issues with market pricing in MA
  – Leads to higher TM premiums, making it less competitive with MA
  – Could be recast as premium tiers for TM
    • But having tiers in TM would be far more efficient
Risk Adjustment Issues

- Concern that inadequate risk adjustment will make TM less competitive
  - CMS’ HCC model a major step forward
    - Recent research favorable to adequacy
  - Promising MedPAC ideas on improving it
    - Use of beneficiaries’ base year costs as a variable
    - Reinsurance mechanisms
- Improved risk adjustment makes including TM in market pricing more acceptable

Market Pricing in MA and the Budget (1)

- Legislative proposals have all had limits on rate of increase in benchmarks over time
  - Sold from perspective of deficit reduction
    - Needed to get CBO score for savings
  - These limits have undermined attractiveness of proposals
    - Very low limits (CPI) seen as erosion of entitlement
    - Even higher limits, tied to GDP growth, seen as posing risks to entitlement
Market Pricing in MA and Budget (2)

- Recent Medicare spending trends have changed the context
  - Projections of low spending mean limits on increases would not save much
    - Reduced baseline projections have lowered interest in near-term Medicare spending cuts
  - May be opportune time to consider MA market pricing without limits on increases
    - Limits unlikely to be binding
    - Congress could impose them in future if needed

Market Pricing Excluding TM—A Second Best Solution

- Bipartisan Policy Center 2013 proposal
  - MA plans submit two bids
    - One under current system
    - One under competitive system for standardized benefit package
  - In areas with two plans bidding lower than bids under current system, competitive system takes effect
    - Benchmark at weighted average of bids or 35th percentile of bids (areas with more MA plans)
Moving Towards an Exchange

• Potential for CMS to make enrollment process for MA more like an insurance exchange
  – Much to learn from experience with ACA exchanges
• Key objectives
  – Better transparency for beneficiaries
    • Provider networks, benefit designs
  – Easier entry into MA markets
    • Greater competition
  – Reduce administrative costs of enrollment

Growth of MA and Provider Rates

• MA plans pay providers rates similar to those in TM
  – Regulations on what providers can charge beneficiaries
  – Plan competition from TM
• Will higher MA market share lead to higher rates?
  – Unlikely as long as TM present
    • Potential competition
    • But original Ryan proposal (end TM) would lead to higher rates
Conclusion

• Need to move MA from administered pricing to market pricing increasing as constituency for higher prices grows

• Projections of low Medicare spending growth and with market pricing in Part D and ACA exchanges make this an opportune time to make the move