

Will The Medicare Competition Demonstrations Scheduled for 2010 Ever Take Place?

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“The bill sets up a massively destructive program called ‘premium support’...increasing Medicare premiums and resulting in a death spiral, as Medicare becomes more and more unaffordable and finally collapses.”

-Senator Ted Kennedy (D-Mass.)

“This program will provide Congress concrete information on how choice and competition will deliver quality care at a price that seniors and taxpayers can afford.”

-House Ways and Means Chairman
Bill Thomas (R-Cal.)



Comparative Cost Adjustment (CCA) Demonstration Program

- **a.k.a. “Premium support”**
- **Begins in 2010**
- **6 year demonstration—could be extended**
- **No more than 6 sites**
 - **25% of beneficiaries enrolled in private plans**
 - **Area must have at least 2 Medicare Advantage plans**
 - **1 large MSA, 1 small (low pop density) MSA, 1 multi-state area**



Competition Sets Premiums

- **Competition determines premiums for both private plans and FFS**
- **Benchmark is weighted average of plan bids and AAPCC**
- **Beneficiaries pay higher (lower) premiums to plans above (below) the benchmark**



Impact on Premiums

- **Beneficiaries get 75% of savings due to competition**
 - rebate could go toward extra benefits, cost-sharing, Part B premium, drug premium, or supplemental premium
- **25% of the savings go to the government**
- **Beneficiaries pay 100% of premium above the benchmark**



FFS Phase-In

- ***No adjustments made to premiums paid by beneficiaries eligible for a drug subsidy***
- ***5% limit on annual adjustments (up or down)***
- ***FFS premium changes phased in over 5 years***
- ***Benchmark phased in gradually, too***
 - ***Blend with pre-2010 benchmark for first 4 years***



Death Spiral?

- **Will sicker beneficiaries remain trapped in FFS, with rapidly rising premiums?**
- **Depends on beneficiary and plan behavior**
- **Risk adjustment reduces disincentives to enroll sicker beneficiaries**
- **Tendency toward inertia**
- **Large subsidy, on average, reduces the problem**



Potential for Greater Efficiency

- **Credible threat of enrollment loss a powerful incentive**
- **Successfully managed plans breed imitators**
- **Competition on prices, quality, customer service**
- **Excess spending growth will be squeezed out**



Not In My Back Yard



“If they want these pilot programs, they should only go to those states where the Senators voted for this bill.”

-Senator Hillary Clinton (D-N.Y.)

“I particularly oppose Michigan seniors being forced to participate in this ill advised experiment.”

-Senator Debbie Stabenow (D-Mich.)

