

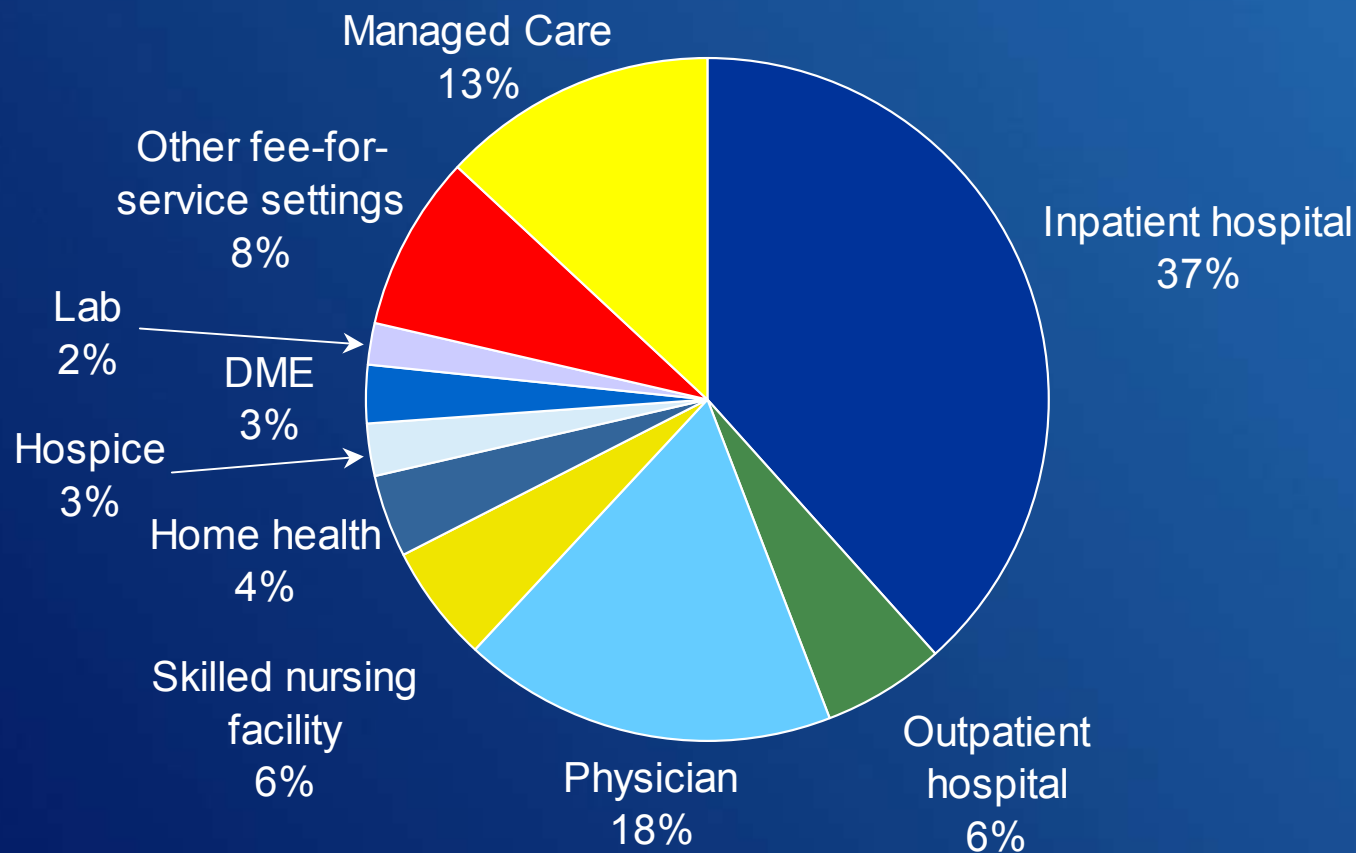
The future of Medicare fee-for-service

Mark Miller, PhD
Executive Director
MedPAC
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Medicare Payment Advisory Commission

- 17 national experts
- Nominated by Comptroller General for 3-year terms; can be renominated
- Make recommendations to the Congress and the Secretary of HHS
- Vote on recommendations in public
- Two standing reports to Congress; also various mandated reports

Total benefit spending for CY2004 = \$302.5 billion



Medicare spending in selected settings

Type	Number of providers	2004 Medicare program spending
Hospital inpatient	PPS: 3,700 CAH: 1,100	\$116 billion
Hospital outpatient	PPS: 4,300	\$17 billion
Physicians/LLP*	700,000	\$54 billion
Home health	8,100	\$12 billion
SNF	14,900	\$17 billion

What is driving growth in Medicare spending?

- Beneficiaries
- Unit costs
- Use
- Intensity (technology)

Factors related to U.S. health spending

- Income effect – richer societies spend a larger proportion of income on health
- Fragmentation of care, but concentration of provider market power
- Technological improvements
- Lack of free market or other cost-containment mechanisms

“Medicare funding warning”

- Percent of funding from general revenue is increasing
- 2006 and 2007 Trustees Reports will both hit 45% threshold

Broad options for sustainability

- Raise revenues
- Increase eligibility age
- Increase beneficiary responsibilities
- Means testing
- Redefine benefits and coverage policy
- Control volume
- Slow provider payment rate growth

Mid-range changes in Medicare fee-for-service

- Pricing reforms
- Changes in incentives
- Improvements in accountability

Pricing

- Making Medicare payments more precise:
 - Inpatient hospital DRG reform
 - Physician payment reform
 - Part B drug payment reforms
 - Competitive bidding

Changes in incentives

- Bundling services
- Care coordination across settings
 - Episodes/capitation
- Gainsharing

Improvements in accountability

- Pay for performance – quality
- Measuring resource use
- Provider certification: imaging
- Comparative effectiveness

Conclusion

- FFS is not producing a sustainable product
- Mid-range changes are necessary
- Mix of solutions/private-public collaboration?