MEDICARE PLAN DEVELOPMENT 4/99

COST SHARING: BACKGROUND
DRAFT

- **HOME HEALTH**: 3.6 million beneficiaries used home health in 1997; cost: $15 billion in 1999
  Currently: No cost sharing.
  Proposal: Unlimited 10% coinsurance or $5 per visit , limited to the first 60 visits

  Facts:
  - 25% annual average growth in Medicare spending per beneficiary between 1987-97
  - Number of visits per user tripled in last decade (from 23 visits/user to 73 visits)
  - Used by older benes (those over age 85 are 4 times more likely to use services), women (65%)
  - Some beneficiaries have many home health visits:
    - Over 1 million beneficiaries have more than 60 home health visits in a year
    - Rural users average 81 visits versus 69 visits on average for urban beneficiaries
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  Issues:
  - Recommended by Medicare Payment Advisory Commission, most experts. With cap, can be acceptable to some advocates (particularly if in a bill with prescription drug benefit).
  - Home health industry has strongly asserted that the BBA payment changes are having an adverse effect on viability of agencies and access to care.
  - In 1997, the Senate passed a $5 home health copay capped at the hospital deductible ($768).
  - Moving to prospective payment system, where copays are less important in controlling use.

- **LAB SERVICES**: 24 million benes used diagnostic lab service in 1997; cost: $5 billion in 1997
  Currently: No cost sharing.
  Proposal: 20% coinsurance

  Facts:
  - Recommended by Medicare Payment Advisory Commission, most experts.
  - About 14 services per person served in 1997
  - Total program payments per person served in 1997: $200

SKILLED NURSING FACILITIES: 1.4 million benes used SNF in 1997; cost: $13 billion in 1999

Currently: No copay on days 1-20, $96/day for days 21-100, 100% for additional days.

Proposal: Replace copays with 10% coinsurance on days 1-100

Facts:

- 30% annual average growth in Medicare spending per beneficiary between 1990-97.
- Cost per day – not an increase in the number of days or users – has driven rapid cost growth.
- The average SNF admission lasts for 24 days.
- Over 60% of admissions last less than 20 days, when the large copay begins.
- The average Medicare cost per SNF day was $230 in 1997.
- The average coinsurance per person in a SNF for over 20 days was well over $1,000.
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Issues:

- Helps the sickest beneficiaries; rationalizes the copay.
- Saves government money since most users do not pay copays now.
- SNFs are the most vocal provider group concerned about the BBA cuts. This could be perceived as an additional cut if they cannot collect the coinsurance.
- Probably does not reduce inappropriate use, since admission to a SNF is not usually optional.
- Could be viewed as encouraging Medicare to become more of a long-term care program.

PREVENTIVE SERVICES: [Information not yet available since new benefits in 1998]

Currently: Some preventive benefits count toward Part B deductibles; some have copays

Proposal: Eliminate deductible and copays for all preventive services

Facts:

- Studies show that cost sharing can discourage people from using preventive services.
- The only reason why cost sharing was included with these new benefits in the BBA was cost.

HOSPITAL COPAYS & LIMITS: About 0.4% of beneficiaries qualify for the copay

Currently: $192/day for days 61-90; $384/day for days 91-150 (limited to 60); 100% > 150 days

Proposal: Eliminate copays and day limits

Facts:

- Virtually all experts acknowledge that these copays do not limit unnecessary use.

Issues:

- Could be viewed as an attempt to protect against catastrophic health costs.
- Many beneficiaries have supplemental coverage to pay for this cost.
- Since rarely used, most beneficiaries don't even know about the copays or limits.

COMBINED PARTS A & B DEDUCTIBLE:

Currently: $768 deductible per hospital admission within limits indexed to program growth
$100 Part B deductible not indexed (services like home health, some prevention don't count)
Proposal: Create single deductible for all Medicare services (e.g., $350) Indexed to inflation

Facts:

- Separate deductibles were created in the 1960s when hospital insurance was usually separate
- Typical private plans have single deductibles in the $250 range (e.g., FEHBP Blue Cross Blue Shield standard option has a $200 deductible for most services plus a $50 deductible for drugs).

Issues:

- Advocated by a number of experts, especially in the context of merging Parts A & B
- Would likely be perceived as a big increase by beneficiaries who do not use hospital care
- Budget neutral amount ($418) is probably too high; costs to reduce.

MEDIGAP REFORM: About 11 million beneficiaries purchased Medigap in 1996.
Currently: Regulation determines the nature of the benefits offered.
Proposal: Prohibit Medigap plans from covering Medicare's deductible.

Facts:

- First-dollar coverage tends to increase over- and unneeded use of services.
- Beneficiaries with Medigap were found to have Medicare expenditures that were 30 percent higher.
- The average beneficiary payment for Medigap premiums is over $1,000 /yr.

Issues:

- Reforming Medigap to prevent its effect on utilization would be considered a serious reform
- Could be viewed as over-regulation – especially since beneficiaries seem to want insurance coverage for their Medicare deductibles.
- If made optional (e.g., plans have to offer one option with / one option without deductible coverage), no savings.

NOTE: 1997 data are preliminary and subject to change;
1999 spending from CBO's 1999 baseline

AGENDA: MEDICARE PRINCIPALS' MEETING

JUNE 9, 1999

I. DRAFT OPTION

II. OUTSTANDING POLICY ISSUES

III. CHALLENGES IN ROLL-OUT

I. DRAFT OPTION

I. MAKING MEDICARE MORE EFFICIENT AND COMPETITIVE

Managed Care Competition: -$7
Begins in 2004; fully adjusts for geographic variation, with hold harmless

Modernizing Traditional Medicare -$14
Competitive pricing for negotiated pricing and selective contracting
Medicare PPO
Primary care case management
Stronger prior authorization and utilization review
Selected "Centers of Excellence" Global payments for services, sites or conditions
Incentive payments for qualified integrated delivery arrangements
Contracting reform

Providers: Smoothing Out BBA Extenders* -$44
DROPPED: Nursing home, home health, DSH extenders. Straight BBA extenders = $62 billion.
Hospital PPS update for urban hospitals of market basket minus 1.0 for 2003-09
Hospital PPS update for rural hospitals of market basket minus 0.5 for 2003-09
Hospital PPS capital reduction of 1 percent for 2003-09
Hospital PPS exempt update of relationship between operating cost and target amount for 2003-09
Hospital PPS exempt capital reduction of 15 percent for 2003-09
Hospital outpatient department update of market basket minus 1 for 2003-09
Hospice update of market basket minus 1 for 2003-09
Lab update of CPI – 1 for 2003-09
Ambulatory surgical center, durable medical equipment, prosthetics & orthotics, parental nutrients update of CPI –1

Improving Medicare Management 0
Increasing management flexibility to improve ability to hire private sector staff. Increasing accountability: Management Advisory Committee, Medicare Coverage Advisory Committee & Citizens' Advisory Panel on Medicare Education; Restructuring central and regional office system

II. MODERNIZING MEDICARE'S BENEFITS

Prescription Drug Benefit (placeholder: 50% up to $5,000; 55% premium subsidy) +$137

Improving Preventive Benefits +$3

Eliminating all preventive services cost sharing
Conduct major information campaign to encourage beneficiaries to use services
Expanding the mission of the U.S. Preventive Services Task Force to provide periodic recommendations on services for Medicare beneficiaries
Conducting a demonstration of the cost effectiveness of smoking cessation drugs and counseling

Rationalizing Cost Sharing and Medigap Reform

Adding 20 percent laboratory coinsurance (-$9 billion)
Indexing the Part B deductible (-$1.5 billion)
Changing the skilled nursing facility copayment (-$4.5 billion)
Add a new Medigap plan option that allows for nominal (rather than no) cost sharing
Allow access to Medigap for beneficiaries whose managed care plan withdraws from Medicare
Direct the Secretary of Health and Human Services and the National Association of Insurance Commissioners to update benefits in all Medigap plans

Improving Care Coordination for Dual Eligibles

Information to all new Medicare-Medicaid beneficiaries on coverage
Demonstration of financing / management options for coordinating care

Medicare Buy-In for Certain People Ages 55-56 (paid for in President's Budget)

People ages 62-64
Displaced workers ages 55-62
"Broken promise" people

III. FINANCING THAT SUPPLEMENTS PROVIDER AND BENEFICIARY SAVINGS

Dedicated Surplus for Strengthening Medicare (amount not counted toward savings)

Income-Related Premium -$25
Begins at $80,000 single, $100,000 couple

Medicare Tobacco Lawsuit?

Interactions: +$2

TOTAL SAVINGS: **-$100**

DRUG BENEFIT: 50% up to $5,000 limit, 55% premium subsidy **+$137**

Keep $400

PRESCRIPTION DRUG BENEFIT OPTIONS ($ BILLIONS -- Preliminary -- Excludes Maintenance of Effort)										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	00-09
$5,000 LIMIT	Cap:	$2,000	$2,000	$3,000	$4,000	$5,000	indexed			
50% Premium	0	5.4	10.5	12.3	14.8	17.2	19.0	20.6	22.3	122.2
Medicaid		0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	3.4
Total		5.9	11.0	12.8	15.3	17.6	19.4	21.0	22.7	125.6
Premiums		***$24***	***$25***	***$31***	***$36***	***$41***	***$43***	***$45***	***$48***	
						38	40.	42	44	
55% Premium	0	5.9	11.6	13.6	16.3	18.9	20.9	22.6	24.5	134.4
Medicaid		0.4	0.4	0.4	0.3	0.2	0.2	0.2	0.2	2.2
Total		6.3	12.0	13.9	16.6	19.2	21.1	22.8	24.7	136.7
Premiums		***$22***	***$22***	***$28***	***$33***	***$37***	***$39***	***$41***	***$43***	
60% Premium	0	5.8	12.7	14.8	17.8	20.7	23.0	24.9	26.9	146.6
Medicaid		0.3	0.3	0.2	0.2	0.1	0.0	0.0	0.0	1.0
Total		6.1	13.0	15.0	17.9	20.7	23.0	24.9	26.9	147.6
Premiums		***$19***	***$20***	***$25***	***$29***	***$32***	***$34***	***$36***	***$38***	
67% Premium	0	7.2	14.1	16.5	19.8	23.0	25.4	27.5	29.7	163.0
Medicaid		0.2	0.2	0.1	0.0	-0.2	-0.2	-0.3	-0.3	-0.6
Total		7.4	14.2	16.6	19.8	22.8	25.2	27.2	29.4	162.5
Premiums		***$16***	***$17***	***$21***	***$24***	***$27***	***$29***	***$30***	***$32***	
NO LIMIT:	Cap:	$2,000	$3,000	$3,000	$4,000	$5,000	None			
50% Premium	0	5.4	11.8	13.1	15.0	17.3	21.2	24.4	27.0	135.1
Premiums		***$24***	***$30***	***$31***	***$36***	***$41***	***$51***	***$54***	***$58***	
67% Premium	0	7.2	15.7	17.5	20.0	23.0	28.3	32.6	36.0	180.3
Premiums		***$16***	***$20***	***$21***	***$24***	***$27***	***$34***	***$36***	***$39***	

II. OUTSTANDING ISSUES

- **Balanced Budget BBA fixes**: What to include, if anything

° Pay for transition to national rates for hospital outpatient departments	+0.8
° Keep indirect medical education adjustment at 6.5% through 2002	+1.6
° Nursing homes: address high-cost cases	+0.9
° Relieve pressure on therapy caps	+1.9
	5.2

- **Cost sharing**: Final sign-off

- **Size of Drug Benefit:**

  ° Amount of subsidy; catastrophic coverage or not

- **Surplus**:

  ° Timing, amount, ratios, stream

- **Process for POTUS sign-off**: Meeting or memo

CHALLENGES IN ROLL-OUT

- **Overall Package**:
  - Impact on Trust Fund
  - Impact on Beneficiaries – Ratio of beneficiary premiums and cost sharing to drug premium subsidy. Ratio of provider to beneficiary savings
  - Out-year balance of cost and savings
- **Surplus for Drugs:**
  - Rationale
  - Ratio of financing through savings / surplus
- **Drug Benefit:**
  - Examples of how it works, who it helps
  - Defense against criticism of substitution; not enough (no catastrophic coverage)
- **Competition**:

- How to explain
- How to differentiate from Breaux-Thomas plan
- How to fend off industry claims of unfair competition, benefit reductions

- **Provider savings:**
  - How justified in light of BBA / why no BBA fixes (if so decided)
  - All backloaded
- **Cost Sharing:**
  - Who is helped / who is hurt
  - Is this reform without adding catastrophic coverage
- **Medicare management**
  - Does plan give HCFA too much flexibility
  - Why not adopt the Breaux-Thomas Medicare board

MEDICARE OPTIONS DISCUSSION

JUNE 1, 1999

I. BASE PACKAGE

II. MAJOR ISSUES

III. ILLUSTRATIVE PACKAGES

I. BASE PACKAGE: $100 BILLION

(Savings in Billions, 2000-2009)

• **Modernizing Medicare and Making it More Competitive**	
° Traditional Medicare: Adding Private Sector Management Tools	-$14
° Competitive Pricing in Managed Care	-$10
• **Improving Medicare's Financing**	
° Income-Related Premium	-$25
° Dedicating 15 Percent of the Surplus to Strengthen Medicare ($350 billion / not counted towards savings)	
• **Modernizing Medicare's Benefit Structure**	
° Cost Sharing Changes	-$12
• **Provider Savings** (modified BBA extenders/subject to change)	-$40
• **Other Non/Low-Cost Policies**	
TOTAL	-$100

II. MAJOR ISSUES

- **Design and Cost of Drug Benefit:**
  - Amount of premium subsidy / government contribution
  - Amount of coverage of high (catastrophic) cost

- **Matching Drug Benefit Costs with Financing Options:**
  - Reduce Drug Benefit and Additional Traditional Medicare Savings
  - Add New Financing: Tobacco Tax or Surplus

PRESCRIPTION DRUGS: COSTS OF VARIOUS OPTIONS

(Costs in Billions, 2000-2009, Excludes Maintenance of Effort Savings)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	00-09
$5,000 LIMIT	Cap:	$2,000	$2,000	$3,000	$4,000	$5,000	indexed			
50% Premium	0	5.6	10.7	12.5	15.0	17.3	19.1	20.6	22.3	123.0
Premiums		*$24*	*$25*	*$31*	*$36*	*$41*	*$43*	*$45*	*$48*	
67% Premium	0	7.4	14.3	16.7	19.9	23.0	25.4	27.5	29.7	164.1
Premiums		*$16*	*$17*	*$21*	*$24*	*$27*	*$29*	*$30*	*$32*	
$10,000 LIMIT *	Cap:	$4,000	$4,000	$6,000	$6,000	$8,000	$8,000	$10,000	indexed	
50% Premium	0	7.2	13.8	15.6	17.2	19.0	20.8	22.9	25.1	141.6
Premiums		*$31*	*$33*	*$38*	*$40*	*$45*	*$47*	*$51*	*$55*	
67% Premium	0	9.6	18.4	20.8	22.9	25.4	27.8	30.5	33.5	188.8
Premiums		*$21*	*$22*	*$25*	*$27*	*$30*	*$31*	*$34*	*$36*	
NO LIMIT:	Cap:	$2,000	$3,000	$3,000	$4,000	$5,000	None			
50% Premium	0	5.6	12.0	13.3	15.1	17.3	21.0	24.1	26.5	134.8
Premiums		*$24*	*$30*	*$31*	*$36*	*$41*	*$51*	*$54*	*$58*	
67% Premium	0	7.4	15.9	17.7	20.2	23.1	28.0	32.1	35.4	179.9
Premiums		*$16*	*$20*	*$21*	*$24*	*$27*	*$34*	*$36*	*$39*	

** Note: The policy with the $10,000 cap is more expensive than the catastrophic option only because it offers more generous coverage in the early years of its design (00 to 06); the catastrohpic option is more expensive in the out-years*