Historical Trends in Medicare's Private Plans

By:

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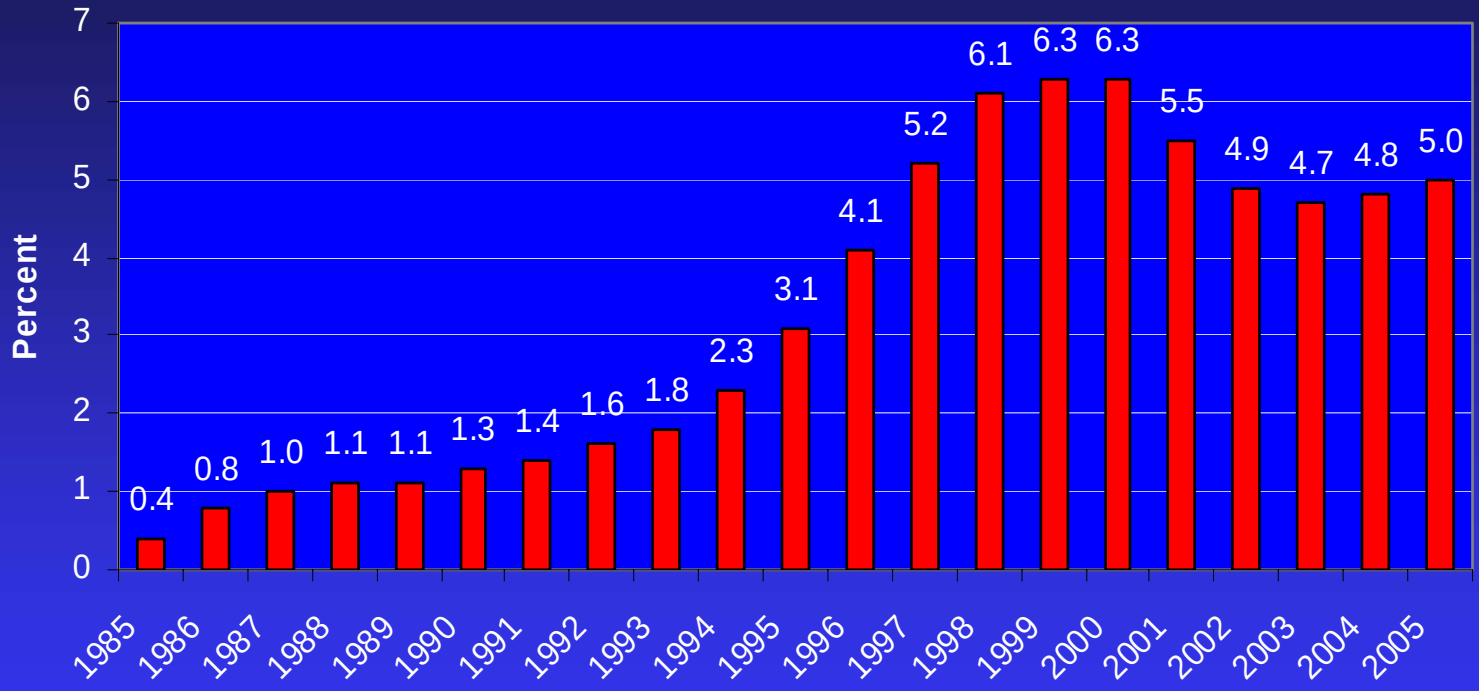
Authority for Private Plans in Medicare Has Evolved Over Time

- Pre mid 1980s: Limited options under special and demonstration authority
- 1985: Medicare risk contracting program creates HMO option (enacted in TEFRA 1982)
- 1997: Medicare+Choice enacted in BBA. Absorbs Medicare risk program, authorizes additional kinds of private plans, modifies payment, and encourages beneficiary choice.
- 1999-2002: M+C plans withdraw or reduce benefits; Congress makes incremental corrections (BBRA, BIPA)

Authority for Private Plans in Medicare Has Evolved Over Time *(continued)*

- 2003: Medicare Modernization Act passed, including prescription drug coverage and authority for Medicare Advantage
- 2004-2005: Medicare Advantage absorbs Medicare+Choice program as "local option." Payments increased to encourage stability.
- 2006: Medicare Advantage to include a regional PPO option; private prescription drug plans available for those in traditional Medicare

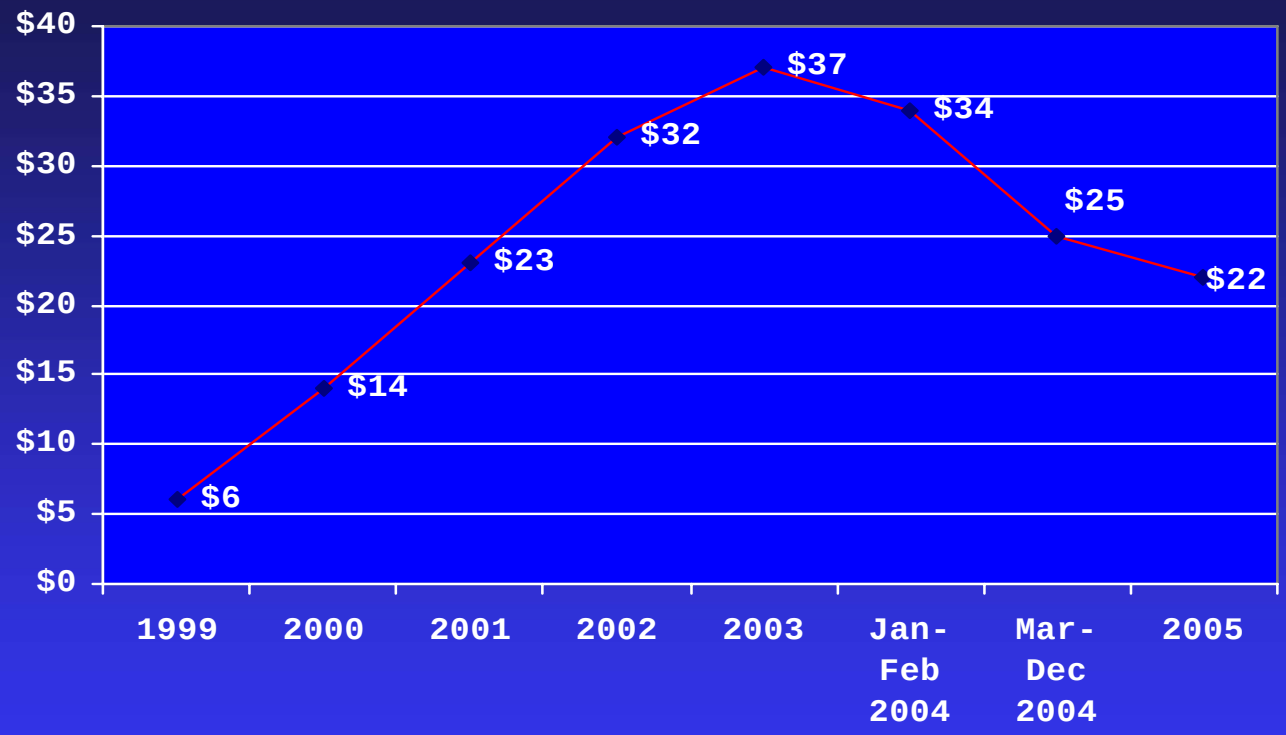
Historical Trends in Enrollment, Coordinated Care



Source: MPR Analysis of data from CMS's monthly Medicare Managed Care Contract Report.

Note: Date for 1999-2005 are for enrollees in M+C coordinated care plans (CCP and the PPO demonstration). Data for prior years are for enrollees in Medicare risk contracts. All data are for December of the given year except 2005 (March).

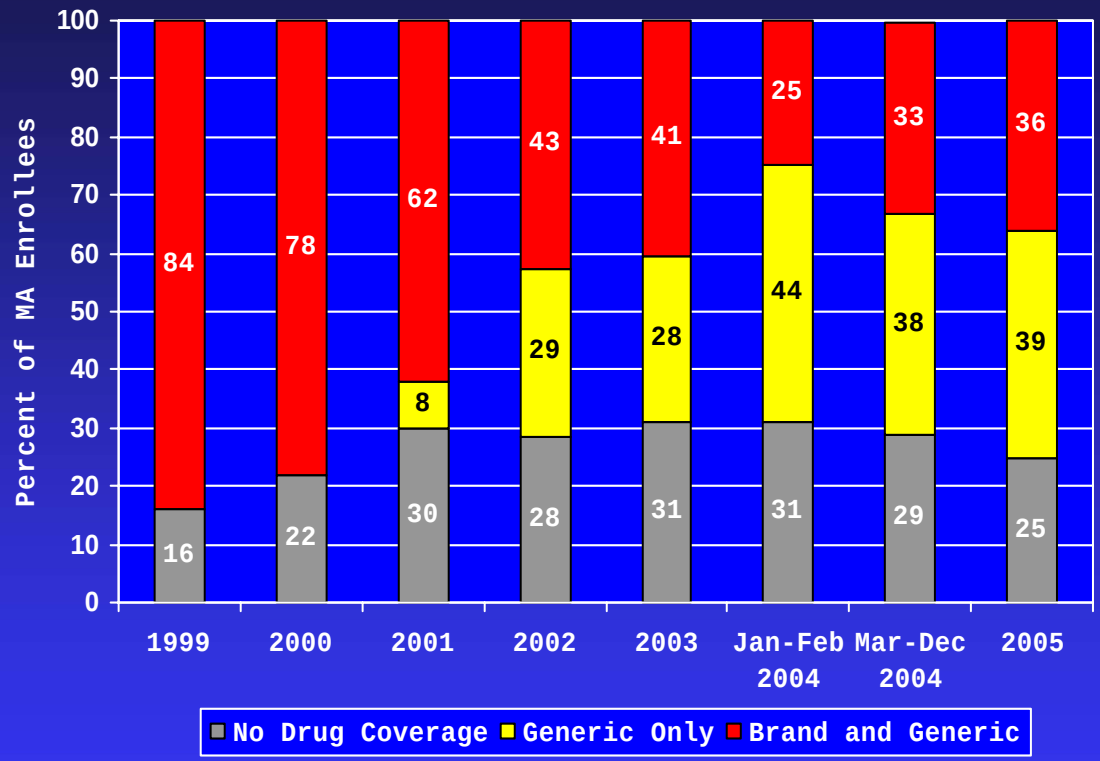
Trends in Monthly Beneficiary Premiums, 1999-2005



Source: MPR analysis of Medicare Compare for The Commonwealth Fund; AARP's Public Policy Institute funded the 2005 analysis.

Note: Data are weighted by March enrollment of each year except January-February 2004 data are weighted by February 2004 enrollment.

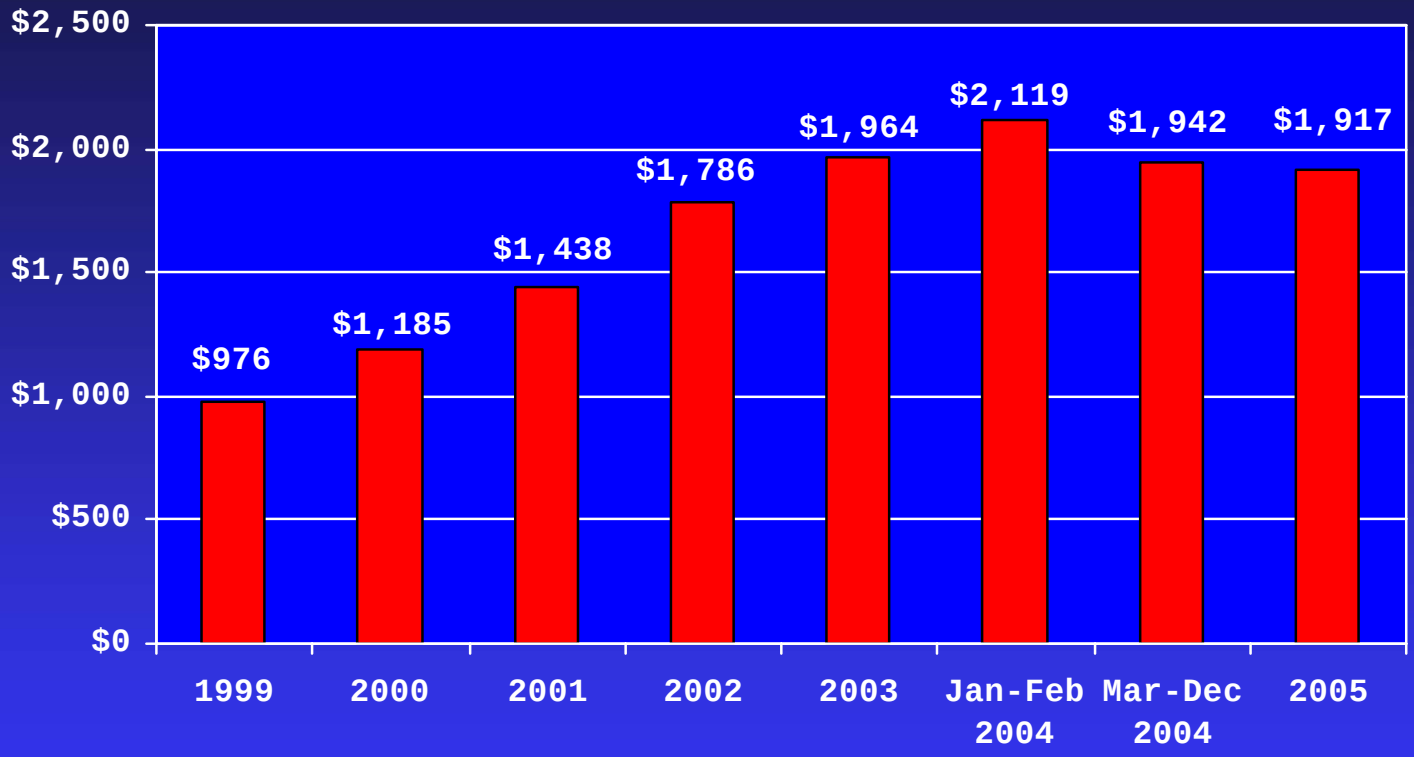
Trends in Drug Coverage, 1999-2005



Source: MPR Analysis of Medicare Compare for The Commonwealth Fund; AARP's Public Policy Institute funded the 2005 analysis.

Note: Data are weighted by March enrollment of each year except January-February 2004 data are weighted by February 2004 enrollment. Information on generic-only prescription drug coverage was not tracked in 1999 and 2000. The number of enrollees with generic-only coverage during those two years is assumed to be negligible.

Average Enrollee Out of Pocket Costs



Source: MPR Analysis of Medicare Compare data using HealthMetrix Research's Medicare HMO Cost Share Report Methodology. (2005 data reflects assumptions used in prior years.)

Note: Data are weighted by March enrollment of each year except January-February 2004 data are weighted by February 2004 enrollment. Average costs assume the distribution of self-reported health status among Medicare managed care enrollees in the 1999 Medicare Current Beneficiary Survey (Liu and Sharma 2003).

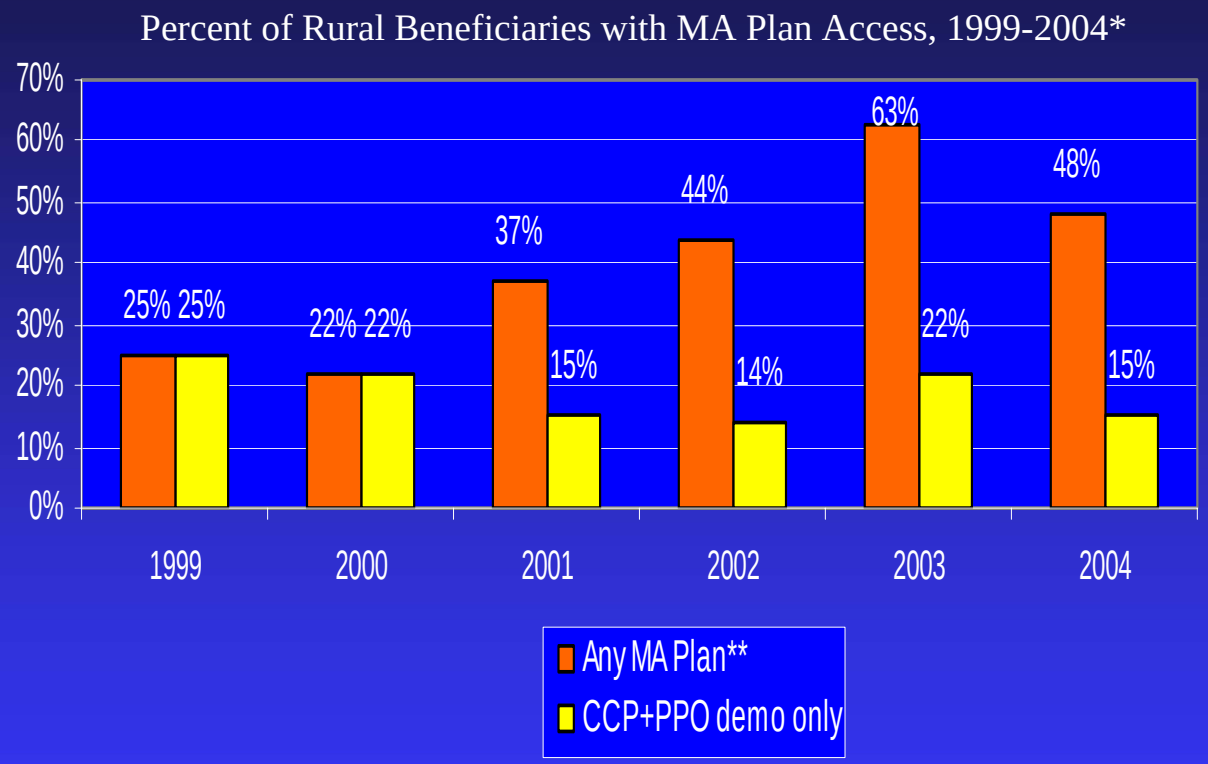
MA Presence Still Very Uneven

Percent of Medicare Beneficiaries with Access to an MA Private Plan, 1999-2004*

Source: MPR Analysis of CMS data for the Robert Wood Johnson Foundation and the Kaiser Family Foundation

*Data for March of that year, unless otherwise indicated

MA Availability in Rural Areas is Very Limited



Source: MPR Analysis of CMS data for the Robert Wood Johnson Foundation and the Kaiser Family Foundation

*Data for March of each year.

**All includes PFFS; offerings have been highly unstable over the period as Sterling has withdrawn from many markets

Additional Private Plan Choices Grow But Enrollment Limited

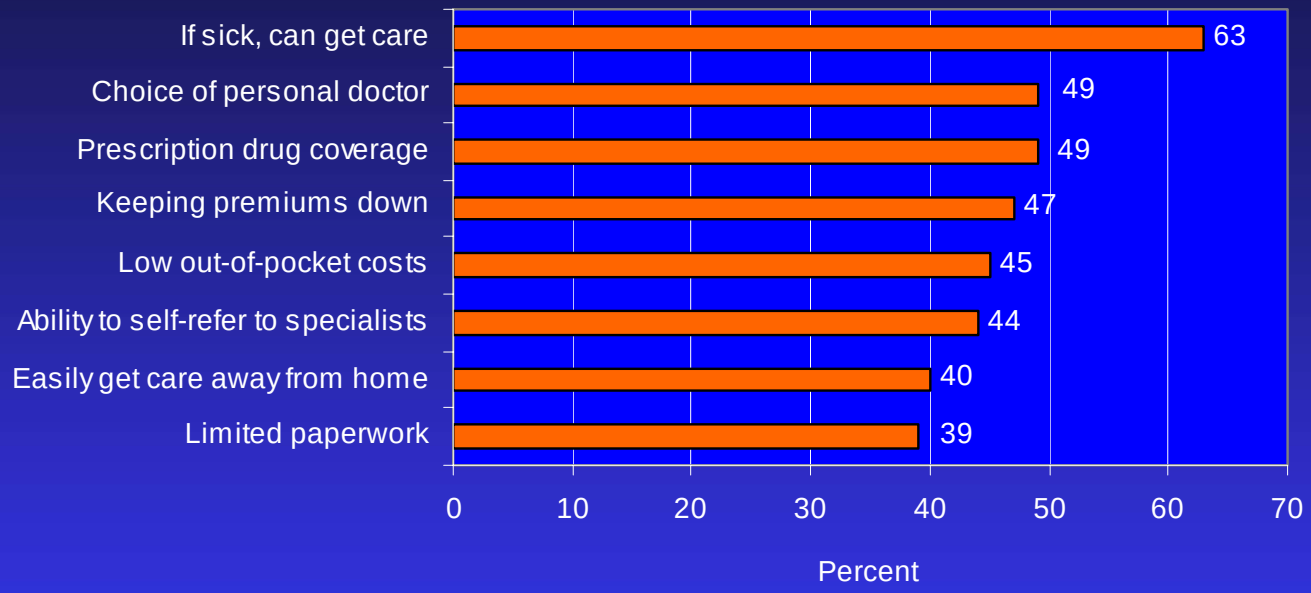
	Number of Contracts	Enrollment	Penetration
All Private Plans*	311	5,521,690	12.9
CCP	175	4,755,231	11.1
PPO Demo	34	113,941	**
PFFS	6	58,072	**

Source: CMS's Monthly Managed Care Contract Report, March 2005

*Total also includes cost contracts and other private plans (mainly various forms of demonstrations).

**Negligible

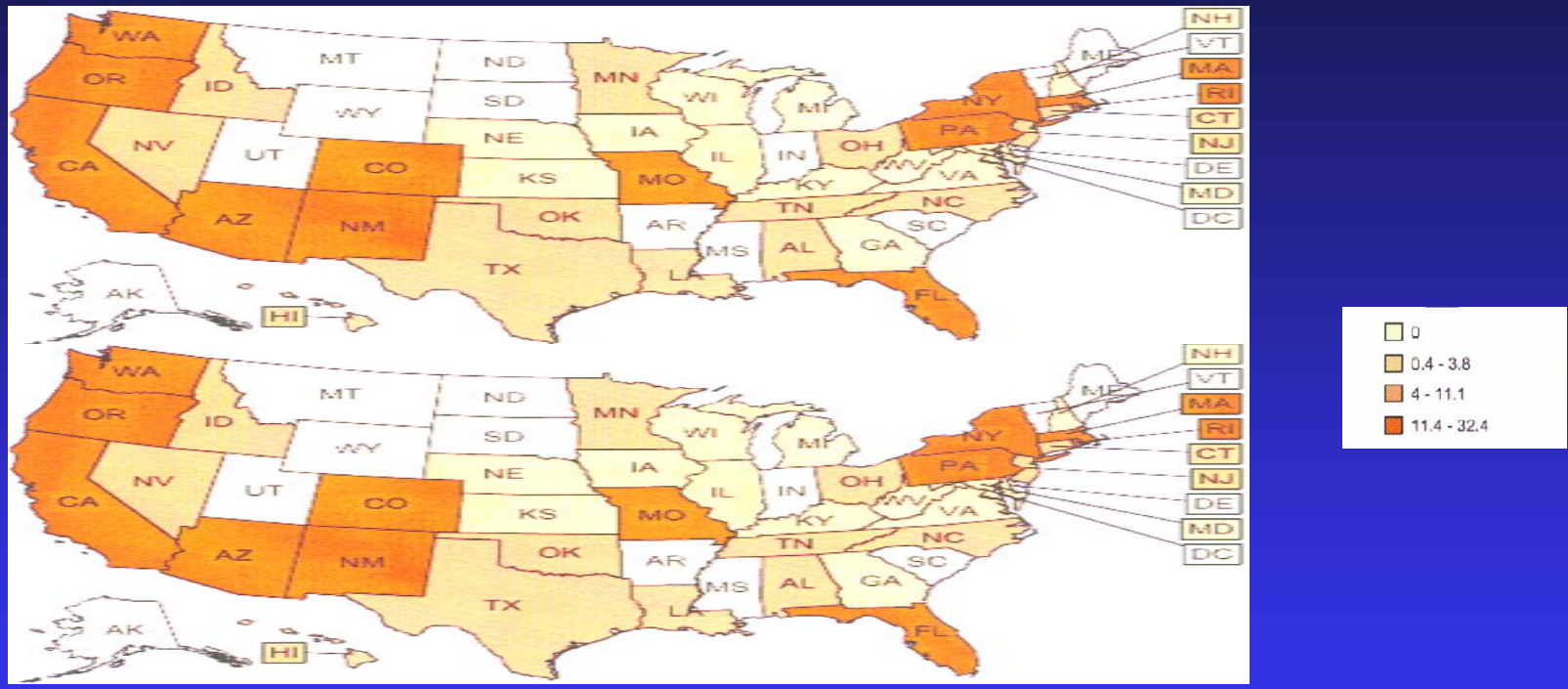
Beneficiary Considerations in Choosing a Plan*



Source: MPR Survey of Medicare Beneficiaries for RWJF in Gold et al., 2001.

*Percent of beneficiaries saying the factor would be “extremely important” if they were choosing a plan today (in 2000).

Availability and Enrollment Varies Substantially Geographically



Source: Mathematica Policy Research analysis of CMS State/County Market Penetration Files. Kaiser Family Foundation Health Plan Tracker.

Notes: Penetration is the number of enrollees in Medicare Advantage divided by the number of Medicare beneficiaries. Includes those in CCP and PPOs only.

Factors that Contribute to Market Variation

- Medicare capitation amount
- Prior market history with managed care
- Practice patterns and beneficiary care expectations
- Beneficiary characteristics and patterns of supplemental coverage
- Extent and form of provider organization
- Firm goals and existing products across all lines of business
- State regulation

Unique Factors in Rural Areas

- Low density, limited population base
- Limited provider supply reduces ability to negotiate network
- Network-based products mostly an urban phenomenon
- M+C raised rates substantially in rural areas with “floor payments” but this did not generate managed care products in those areas
- Some growth of private fee-for-service plans but offerings unstable and enrollment is low

Overview of History of Medicare's Payment to Private Plans

- Medicare risk contracting program: 95 percent of estimated Medicare costs for similar beneficiary in traditional FFS in that county.
- Medicare+Choice: Modified the direct link between county FFS and M+C payments . Plans got greater of:
  - A minimum "floor" dollar payment (separate rural and urban floors authorized in 2000)
  - A minimum two percent increase over prior rate
  - A blended rate taking into account local and national estimated fee-for-service spending (subject to budget neutrality)
  - Risk adjustment (beyond demographics) begun

Overview of History of Medicare's Payment to Private Plans *(continued)*

- **MMA (2004-2005):**
  - **Added a fourth payment option: minimum of 100 percent estimated fee-for-service costs in the county**
  - **Modified the minimum percent increase to include the greater of 2 percent or the national growth percentage (6.3 percent in 2004, 6.6 percent in 2005)**
  - **Authorized blend without regard to budget neutrality (2004 only).**

Short Term Payment Increases Stabilized the Market

- Number of contracts is growing, not shrinking
- Benefits and premiums are somewhat improved (though out-of-pocket costs remain high)
- Enrollment is starting to grow (total penetration 13.0 percent in March 2005)
- Plans, providers, beneficiaries likely still cautious given prior history