

# Employer Use of Medicare Private Fee-for-Service Plans as a Retiree Health Benefit *CMS Perspective*



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**CMS**

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# PFFS Plans – A Brief History

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- **Authorized by Congress with the Balanced Budget Act of 1997**
- **In early years, only one plan sponsor – Sterling – offered a PFFS option**
- **Marketed to beneficiaries in rural areas, with limited regional availability**

# PFFS Growth

- PFFS plans grew exponentially over last few years
  - Availability of PFFS plans and enrollment in PFFS plans has grown by more than 50% since 2007
- Fast growth associated with emerging issues for program
  - Marketing to beneficiaries
  - Provider outreach
  - Provider payment

# Variation in PFFS Plans

- Though subject to the same regulations, PFFS plans vary considerably based on
  - Provider payment rates
  - In-house experience paying providers at Medicare FFS rates
  - Provider outreach by plans

# Option Chosen By a Growing Number of Beneficiaries

- Generally offers more generous benefits than traditional FFS Medicare – Additional value of \$56/month
- No-premium options, small doctor visit co-payments, maximum yearly out-of-pocket medical expenses
- Generally less costly for beneficiaries than traditional FFS Medicare WITH Medigap
- Voluntary care coordination programs
- Particularly attractive in certain markets:
  - Rural
  - Employer

- Generally, rural areas have fewer MA options than urban/sub-urban areas
  - PFFS may be the only MA option
- 32% of PFFS enrollees are in rural areas
  - 59% of all MA rural enrollees are in PFFS
- Nearly 60% of rural enrollees who joined from 2007-2008 chose PFFS

# Choice for Employers

- Retirees are often spread throughout the country, so a non-network product is particularly attractive
- Provides a viable mechanism for employers to continue health care coverage for their retirees
  - If employers drop coverage, retirees forced into the individual market would have to pay out of pocket for an MA plan or purchase a Medigap policy in order to retain comparable benefits
- In 2008, there are more than 500,000 beneficiaries enrolled in 170 employer group PFFS plans, compared to about 36,000 beneficiaries in 127 plans in 2006
  - 17% of PFFS plans are employer-group plans
  - 26% of all beneficiaries in PFFS plans are in employer-group plans

# Issues and Concerns Around PFFS

- CMS is working to develop regulatory and operational policy to address the concerns raised by beneficiaries, providers, and lawmakers
  - Marketing materials
  - Agent and broker activities
  - Timely and correct payments to providers



# Marketing Materials & Agent/Broker Activities

- CMS requirements:
  - Disclaimer language in all pre-enrollment materials as well as sales presentations
  - Documentation of training of marketing agents and brokers
  - Outbound calls to new applicants to confirm their intention to join a PFFS plan and understanding of plan characteristics
- Through “Secret Shopping” and other activities CMS monitors compliance with new requirements and has sent warning letters, requested corrective action, and issued intermediate sanctions against plans
- CMS is working on a regulatory proposal that will include further marketing provisions

# Provider Payment

- Complaints indicate that providers encounter problems obtaining appropriate and timely payment
- CMS requirements dictate that PFFS plans must implement a program to:
  - Encourage a wide range of providers to accept PFFS enrollees
  - Provide information about plan terms and conditions, including a provider payment dispute resolution process
  - Make provider relations staff readily accessible to assist providers with questions
  - Ensure that systems are in place to pay accurately and timely

# Payment to PFFS Plans

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- Average Payment ratio to FFS is 116.6 percent
- PFFS plans are paid the MA county rate where they are offered
- Almost 80 percent of PFFS enrollees in 2007 were in urban and rural floor payment counties

# “Gaping Hole That Is Draining the Medicare Trust Fund”?

- **Critics:** PFFS plans, and MA plans in general, are overpaid for the level of benefits they provide and are “draining” the Medicare Hospital Trust Fund → Proposal: Reduce MA payments to FFS levels
- **Medicare Actuaries:** Bottom line, if MA plans were paid at the same rate as FFS, the hospital trust fund would remain solvent for an additional 18 months past the projected insolvency date of early 2019
- **BUT**, a number of factors contribute to the current and projected excess of Hospital Insurance costs above tax revenues. The level of MA benchmarks is one relatively minor factor.

# “Gaping Hole That Is Draining the Medicare Trust Fund”? (Cont’d)

- Major trends affecting HI financial status
  - Health care costs per person tend to increase faster than workers' earnings or the economy due to increases in the prices, utilization, and intensity of services
  - # of Medicare beneficiaries increasing faster than the number of workers paying taxes into trust fund
- So, blaming MA for the issues facing the Trust Fund puts the focus in the wrong place and distorts attention from the real issues facing us as a nation

# Financial Neutrality May Not Be the Answer: Berenson Critique (2008)

- **Financial neutrality on a local level between MA plans and FFS ignores the factors affecting costs for the private plans and the traditional program**
  - “FFS has important advantage over private plans in that as a government program, it gets to impose administered prices on providers”
  - “Incorrectly assumes that MA plans are subject to the same forces that determine traditional program spending”
- **Medicare FFS rates vary dramatically from one geographic area to another**
  - MA costs vary less from county to county than FFS
  - MA plans pay substantially higher rates to providers in small metro and rural areas, where bargaining leverage is low, but only slightly higher rates in large metro areas
  - In the areas where FFS Medicare costs are highest, such as Miami, MA plans may even pay lower rates

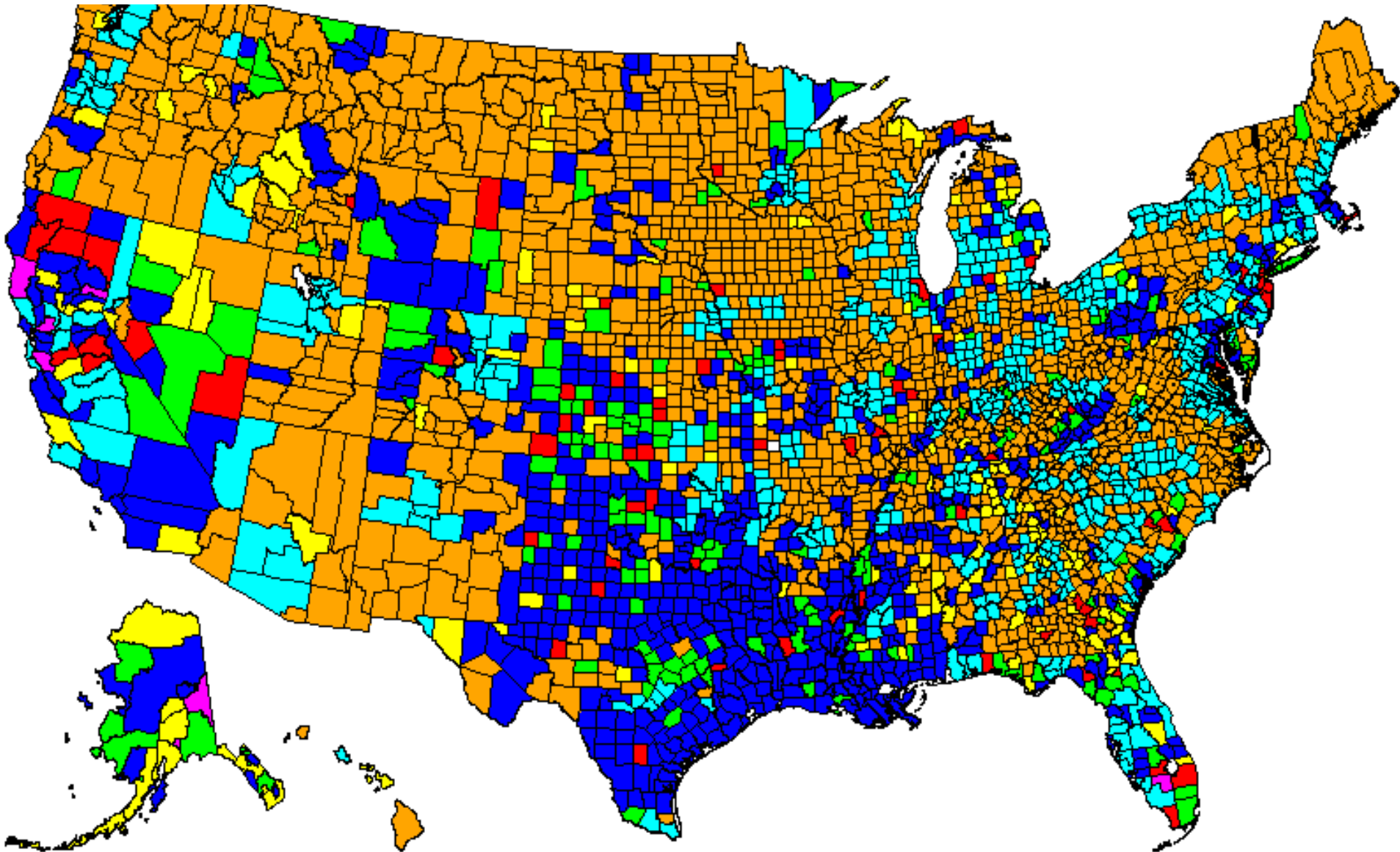
# Given Variation in FFS Costs, Focusing on Payment Differentials Alone Can Be Misleading

*Average FFS costs in Dade County are more than two and one half times the average in La Crosse*








	Payment to FFS Ratio	Risk Adjusted FFS Costs
<b>Dade, Florida</b>	97.6%	<b>\$1,062</b>
<b>La Crosse, Wisconsin</b>	141.2%	<b>\$412</b>
	<b>Dade's FFS Costs as Percentage of La Crosse's Costs</b>	258%

Note – 2007 values shown

# Financial Neutrality Could Have Negative Effects on Availability of MA Plans



Payment Type

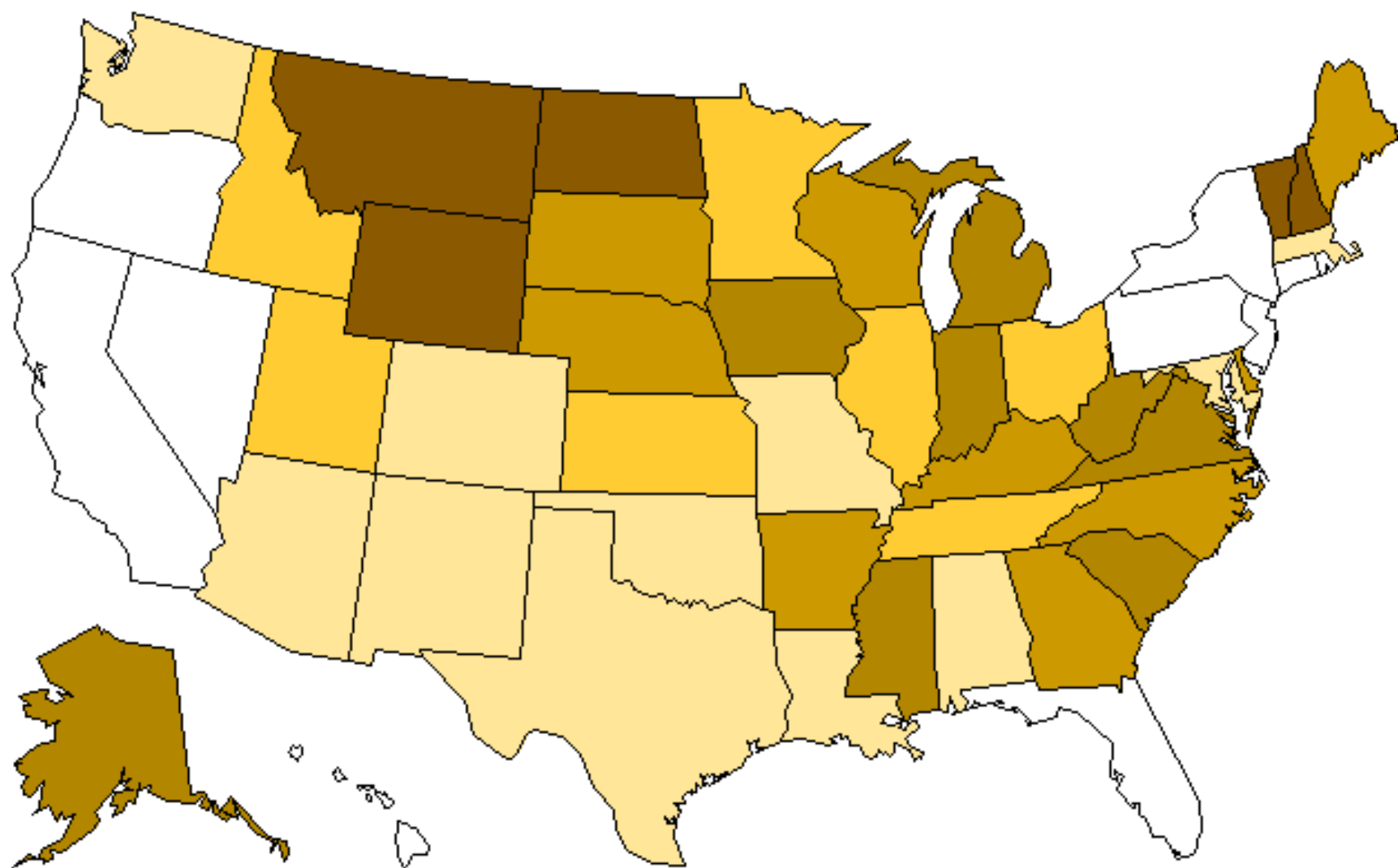
	2004 FFS		2005 FFS		2007 FFS		Blend
	Minimum Update		Rural Floor		Urban Floor		



# Considerations for PFFS Payment

- When evaluating PFFS payment policy, need to take into account
  - Variation in FFS rates, costs of providing care
  - Availability of MA plans in the region
- Impact of reduction in payments could significantly disincentivize plans from offering products in rural and smaller metropolitan areas and in the employer market

### Percentage of MA Enrollment in Private Fee-For-Service Plans (March 08)



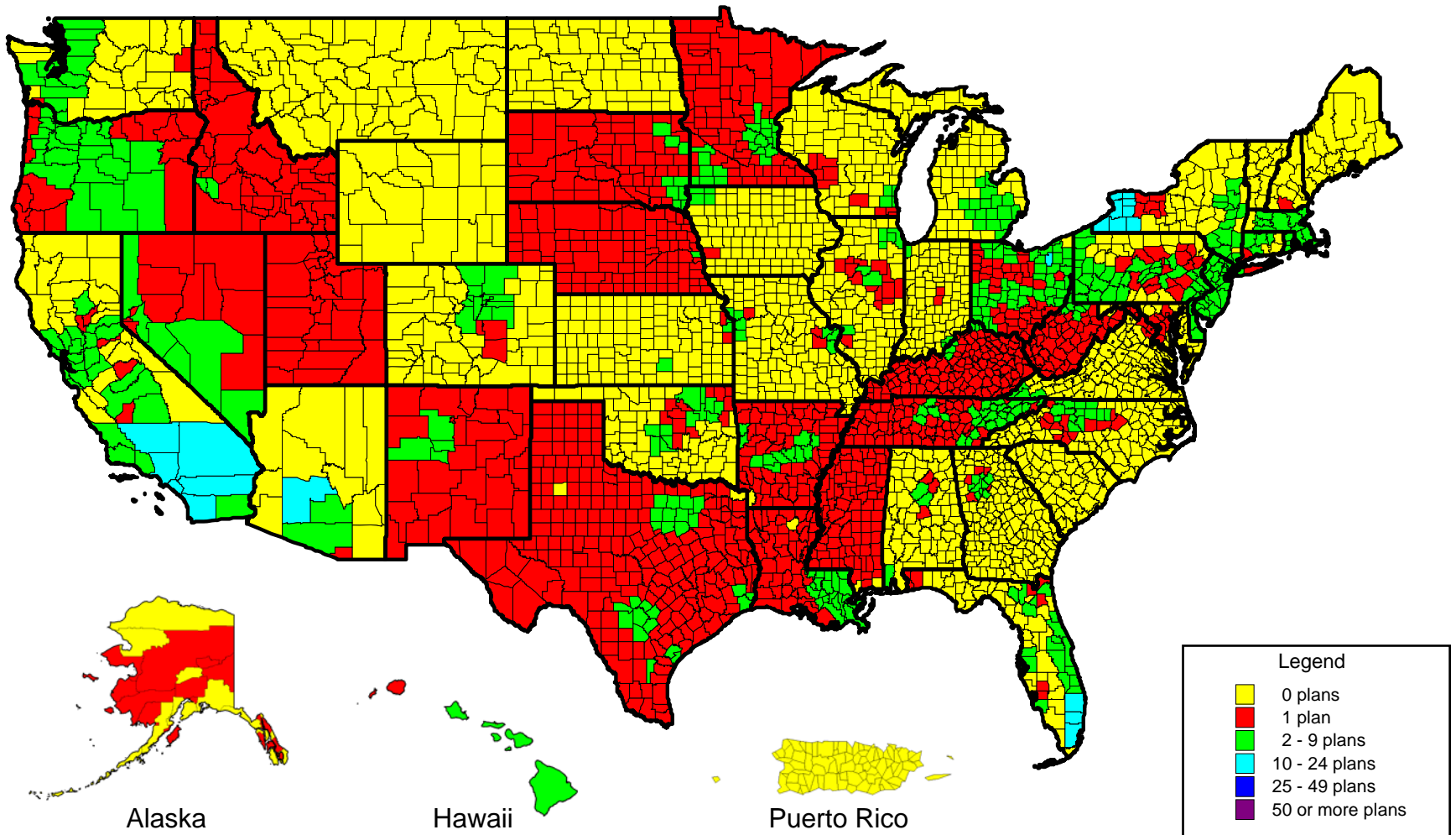
**Percent**    0-10%    10%-25%    25%-50%    50%-70%    70%-90%    Greater than 90%

# Private Fee-for-Service is the Only MA Option In 3 States

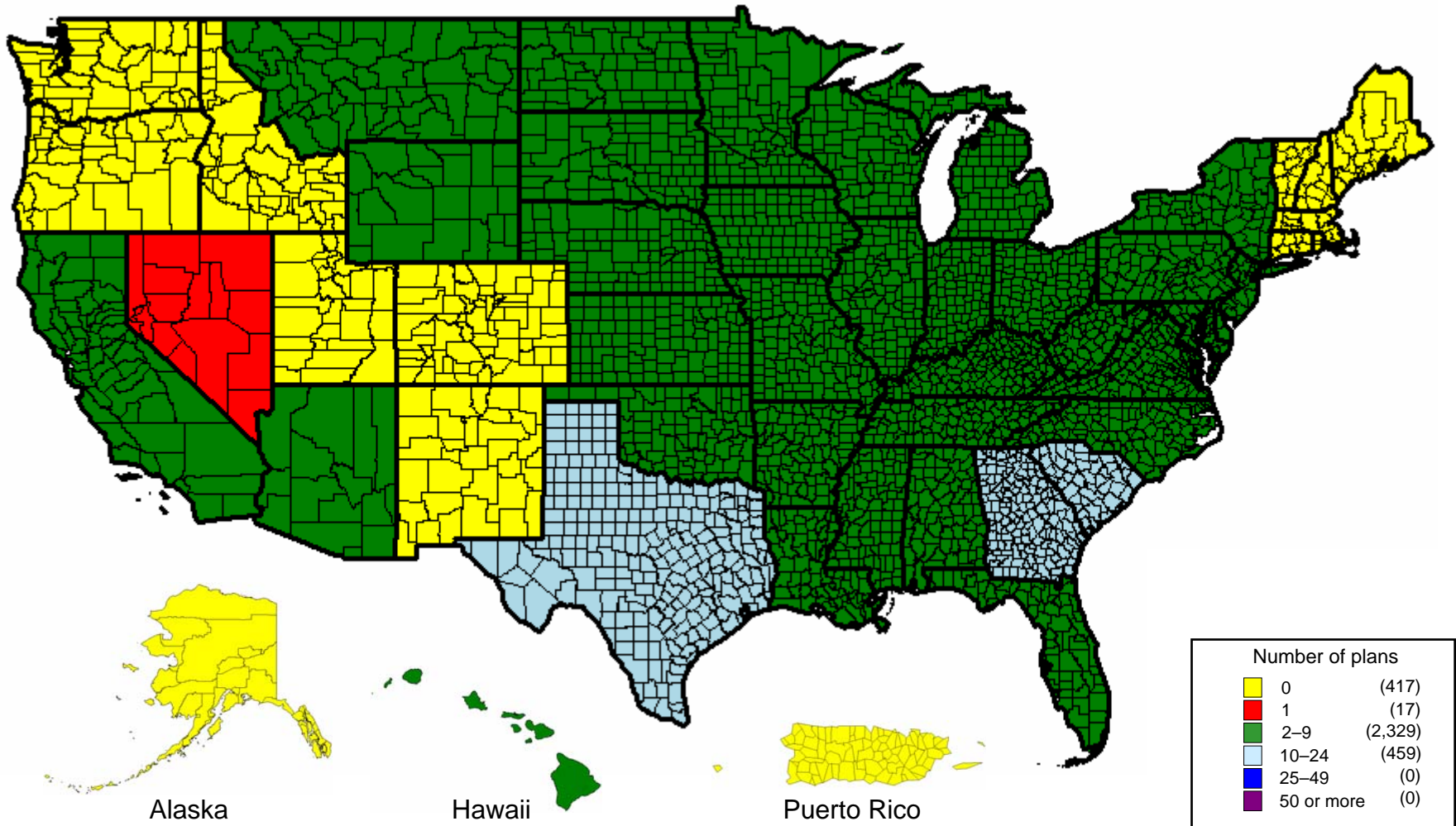
*It is also the only option in some counties in 6 other States*

State	Total Number of Counties	Counties Where PFFS is the Only Option	
		Number of Counties	Percentage of Counties
Alaska	<b>27</b>	<b>27</b>	<b>100%</b>
New Hampshire	<b>10</b>	<b>10</b>	<b>100%</b>
Vermont	<b>14</b>	<b>14</b>	<b>100%</b>
Colorado	<b>64</b>	<b>41</b>	<b>64%</b>
Utah	<b>29</b>	<b>13</b>	<b>45%</b>
Idaho	<b>44</b>	<b>18</b>	<b>41%</b>
Maine	<b>16</b>	<b>6</b>	<b>38%</b>
Massachusetts	<b>14</b>	<b>3</b>	<b>21%</b>
Washington	<b>39</b>	<b>3</b>	<b>8%</b>

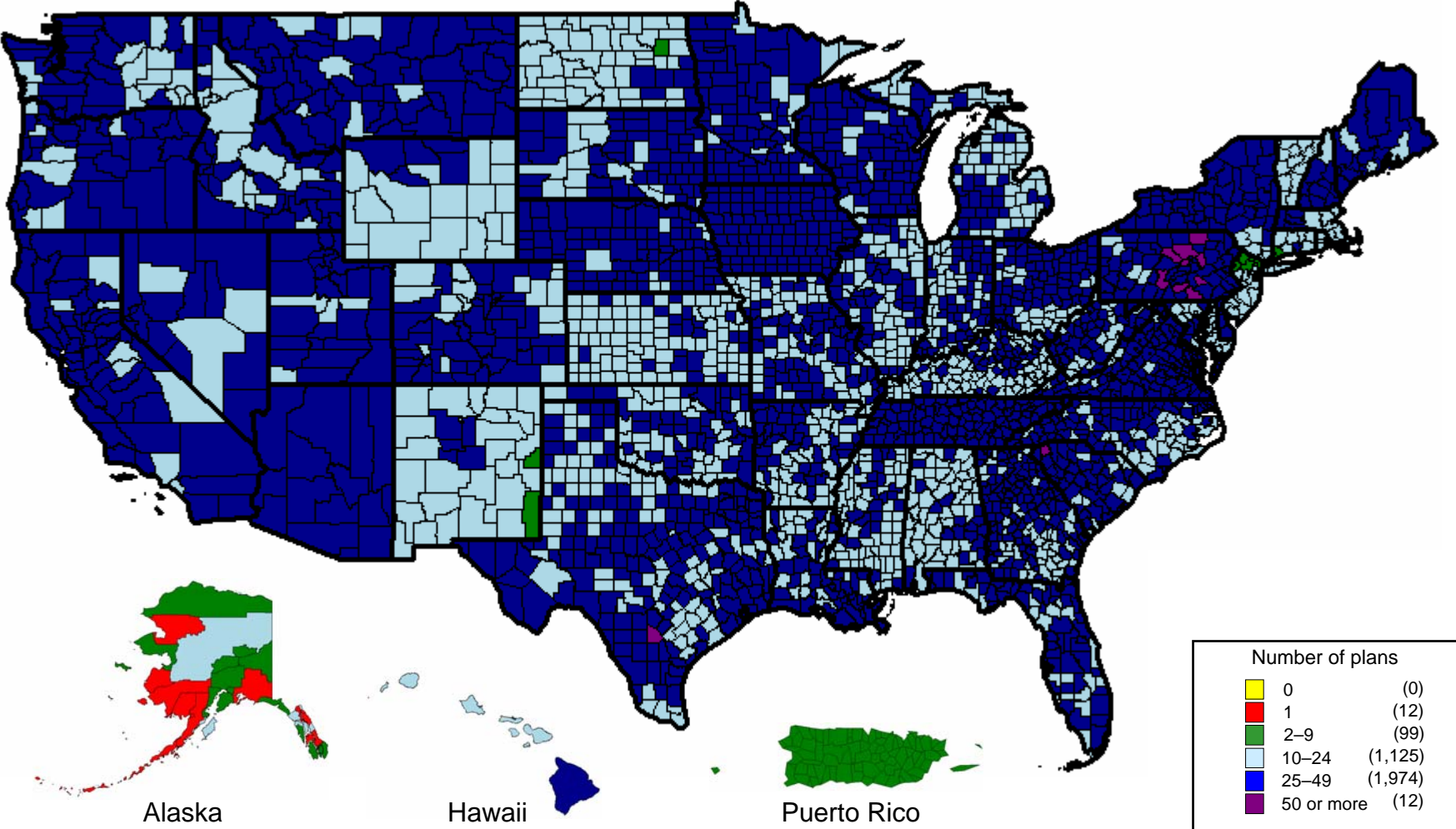
# Plans by County, 2001



# Regional PPOs, 2008



# PFFS Plans, 2008



# Wherefore PFFS?

- PFFS is one product within the spectrum of a broad range of products in the MA Program
  - Increases access to MA
  - Provides affordable and predictable coverage for beneficiaries
  - Helps maintain employer-provided retiree coverage
- CMS will continue to work emphasize compliance with our requirements
- CMS will keep encouraging PFFS plans to demonstrate their value

# PFFS, by any other name would still be...

- ...an interesting option to regulate and oversee
- ...a popular option among beneficiaries and employers
- CMS will make every effort to manage this MA option, with the interest of beneficiaries, tax payers, and the sustainability of the Medicare program in mind