Medicare Advantage Private Fee-for-Service Plans and Employer Groups

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MedPAC view of private plans

- MedPAC has long supported private plans in Medicare.
  - Plans have the flexibility to use care management techniques to improve care, unlike FFS.
  - If paid appropriately, plans have incentives to be efficient.
- MedPAC is concerned about how plans are currently being paid, and the incentives that the payment system has created.

MedPAC MA payment recommendation

- Current recommendation, dating from 2001: level playing field (neutrality) between the traditional FFS program and payment for private plans
  - Program payments should not encourage FFS over MA plans, or vice-versa.
  - The Medicare program should pay the same amount regardless of the option a beneficiary chooses.
- E.g., payment to plans should be at 100 percent of FFS level of payment.

Current MA payment system

- Not a level playing field currently
- Overall, plan payments average 113 percent of FFS in 2008
- Various legislative changes have produced these high payment levels
- The high payments have promoted the growth of private plans
  - Plans are available in all parts of the country
  - Enrollment has grown significantly

Percentage of Medicare beneficiaries with an MA plan available, 2005-2008

	Local HMO or PPO	Regional PPO	PFFS	Any MA	Avg. number of choices
2005	67%	N/A	45%	84%	5
2006	80	87%	80	100	12
2007	82	87	100	100	20
2008	85	87	100	100	35

Note: Regional PPOs authorized in law as of 2006

Source: MedPAC analysis of CMS website landscape file

Growth in MA enrollment, by plan type, 2005-2008

	Dec-05	Aug-06	Mar-07	Mar-08	Change, March '07 to '08	Percent change, March '07 to '08
Plan type						
HMO or PPO	5.2	6.0	6.2	7.2	1.0	15%
PFFS	0.2	0.8	1.4	2.1	0.7	53
TOTAL	5.4	6.8	7.6	9.3	1.7	22

Note: Enrollment in millions.

Source: CMS monthly enrollment reports.

Extra benefits in MA

- Historically, extra benefits were supposed to reflect plan efficiency.
- In early history of the program, plans were paid at 95% of FFS levels
  - Because plans were efficient in relation to their Medicare payments, payment at 95% of FFS was sufficient for many plans to provide extra benefits.
- Today, virtually all of the extra benefits are financed not through plan efficiency, but by Medicare program payments.
- Even relatively inefficient plans can be successful in the MA market because of the level of program payments.

MA payments and bids as a proportion of FFS expenditure levels, 2008

	Payments/FFS	Bids/FFS
All MA plans	113%	101%
Plan type		
HMO	112	99
Local PPO	119	108
Regional PPO	112	103
Private fee-for-service (PFFS)	117	108

Bid is one measure of efficiency. Bid is statement of how much it costs the plan to provide the Medicare benefit, including plan administration and profit. HMOs are more "efficient" than Medicare FFS (cost is 99% of FFS); other plan types, including PFFS, are less efficient.

Note: Figures are weighted by enrollment.

Source: MedPAC analysis of CMS bid and rate data. (See table 3-3 of MedPAC March 2008 report to the Congress.)

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Subsidization in MA

- The Congressional Budget Office estimates the cost of paying MA plans at more than FFS as $54 billion over the 2009–2012 period.
- The cost of this subsidy is borne by taxpayers and Medicare beneficiaries.
  - As of 2009, according to Medicare's Chief Actuary, the Part B premium will cost each Medicare beneficiary about $3 a month more because MA payments exceed FFS.
- If MA payments were at FFS levels, the solvency of the Part A Trust Fund would be extended by a year and a half.

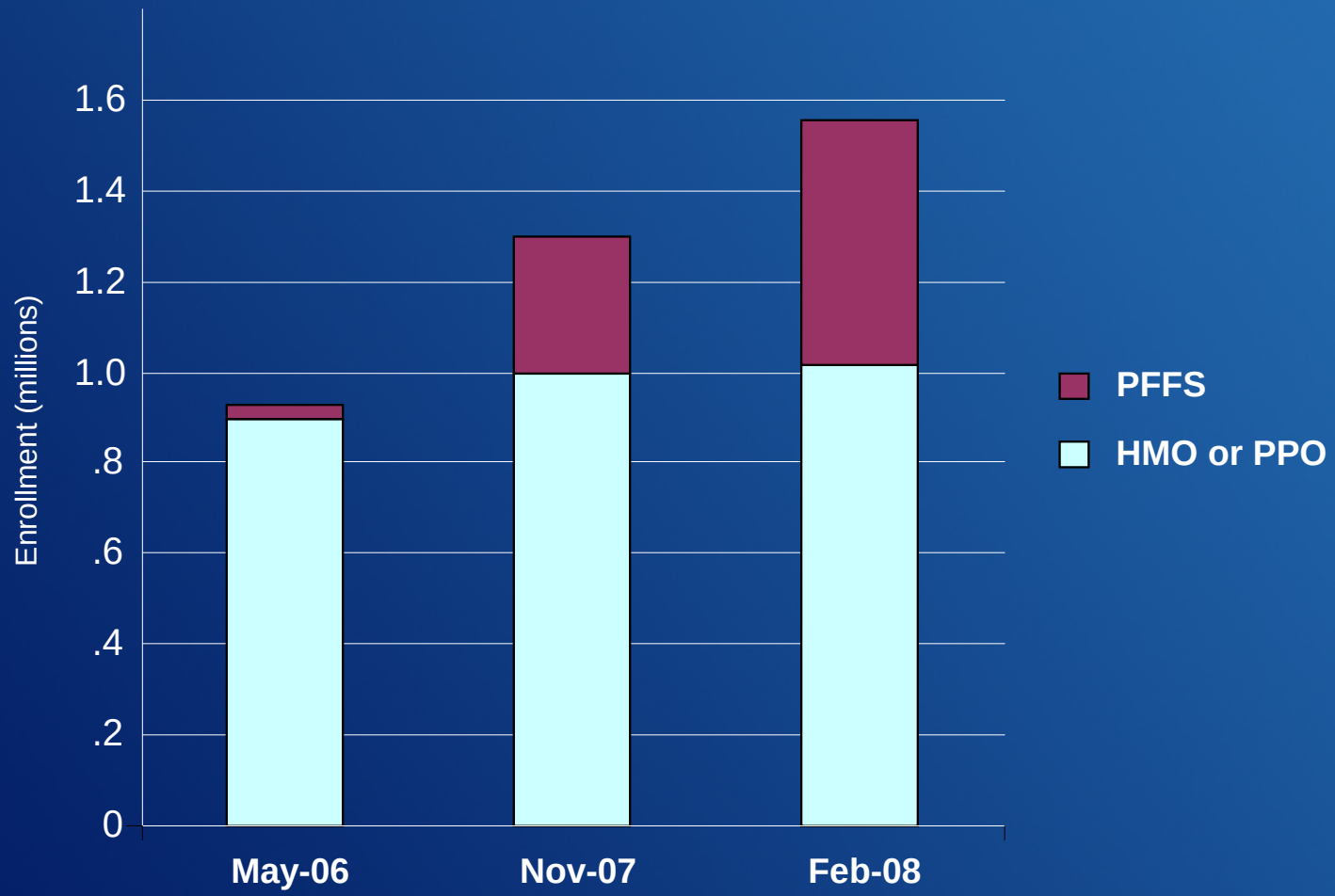
Features of private fee-for-service (PFFS) plans and advantages over other plan types

- No provider network (unlike HMOs and PPOs)
  - Plans use the law's "deeming" provision—enrollees can use any provider willing to treat patient under plan terms
- Plan terms include payment to providers at traditional Medicare FFS rates
  - Plans do not negotiate with providers, merely piggyback on Medicare system
- Plans do not manage or coordinate care.
- Law exempts PFFS from reporting on quality measures that HMOs and PPOs must report
- Consequently, enrollment has grown.
- Marketing abuses have increased.

Features of PFFS attractive to employer-group plans

- Ideal “platform” for coverage of Medicare-eligible retirees
- Lack of network requirement allows broad geographic service area, unlike HMOs and PPOs
  - Retirees throughout the country (e.g., who moved from their place of employment) can use any Medicare provider willing to agree to plan terms
- Medicare program dollars that finance extra benefits can finance benefits employer/union would have paid for otherwise
  - Lower cost than providing Medicare wraparound coverage—FFS coverage with the employer/union filling in Medicare gaps
- Consequently, enrollment has grown

Employer group enrollment in MA plans 2006-2008, by plan type



Source: MedPAC analysis of CMS enrollment reports.

Employer group MA plans bid higher relative to FFS than individual MA plans

	Employer group MA plans	Individual MA plans
Bid/FFS		
All	**109%**	**99%**
HMO	**108%**	**97%**
PFFS	**112%**	**108%**

Note: Figures are weighted by enrollment.

Source: MedPAC analysis of CMS bid and rate data.

MedPAC concerns with MA employer group plan enrollment growth

- Same as concern over general MA growth—symptom of the problem with the payment system
  - Any growth in MA enrollment under current payment system results in higher Medicare program expenditures, paid for by taxpayers and beneficiaries
- Difference between level of bids in individual and employer markets troublesome
  - Appears to be sign of less competitive market
  - May create opportunity to have Medicare program dollars displace employer dollars as source of financing for extra benefits