# "What Roles Will Medicare, Medicaid, and SCHIP Fill?"

## *Discussant*

## National Academy of Social Insurance Conference

### "Social Insurance, Fiscal Responsibility, and Economic Growth"

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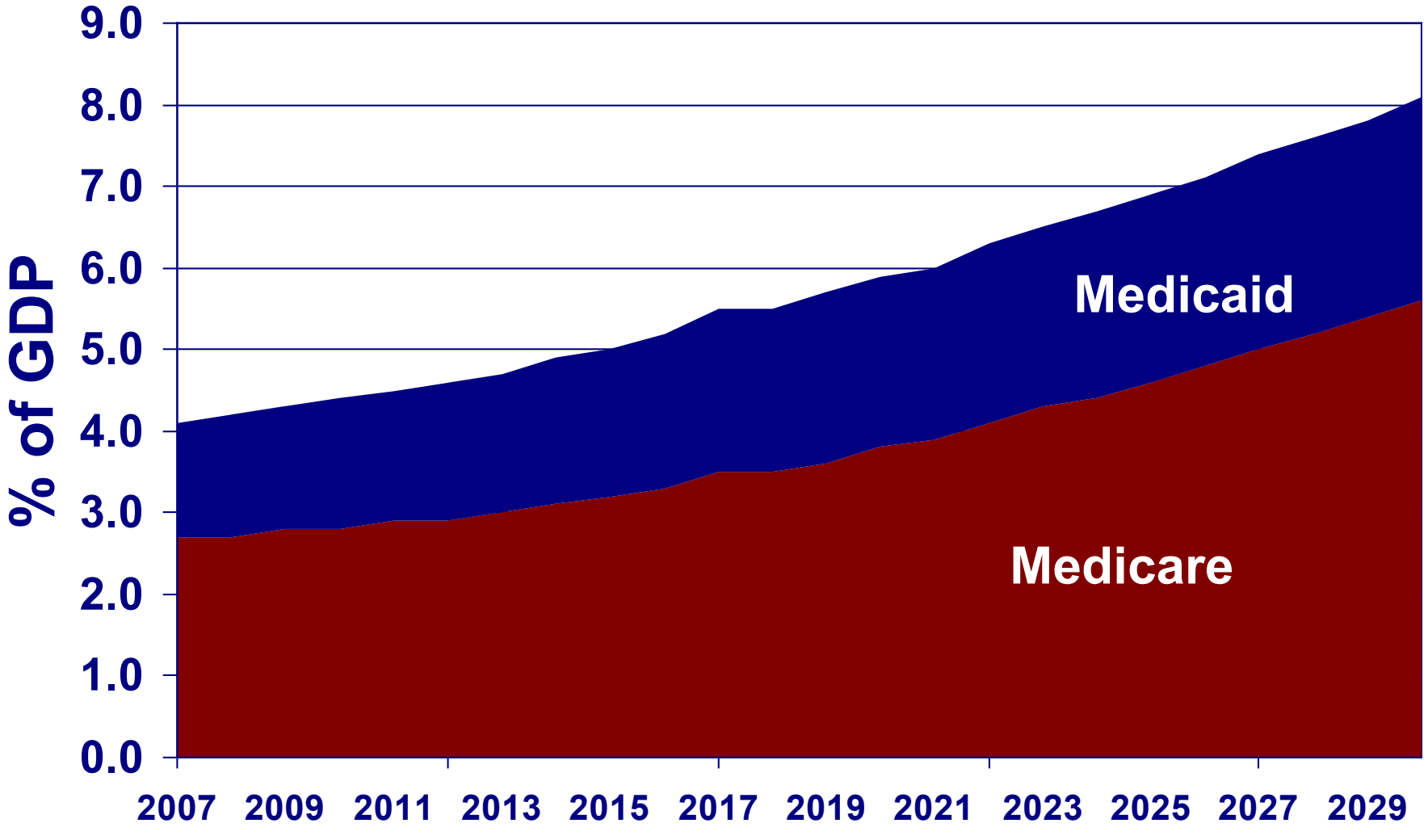
# Current Outlook

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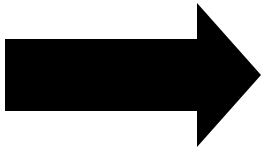
Source: The Long-Term Budget Outlook, CBO, December 2007 (extended baseline scenario).

# A Basic Question to Consider

**Is Medicare Fee-for-Service (FFS) the solution, or is it (at a minimum) part of the problem?**

# Implication of Current Agenda Items

- Reductions in Medicare Advantage payment rates
- Early Medicare "buy-in" option for those age 55 to 64
- New public insurance option for under 65 population (provider payment regime likely to follow Medicare model)



**More health care payment dollars cycled through Medicare-style FFS insurance arrangements**

# Delivery System Shortcomings

- Fragmented organizational structures
- Lack of coordination across financially autonomous practices and institutions
- Inadequate accountability for patient outcomes
- Uneven quality
- Strong financial incentives to boost profits with volume in outpatient settings

***Medicare FFS is the most influential financier of the delivery system status quo.***

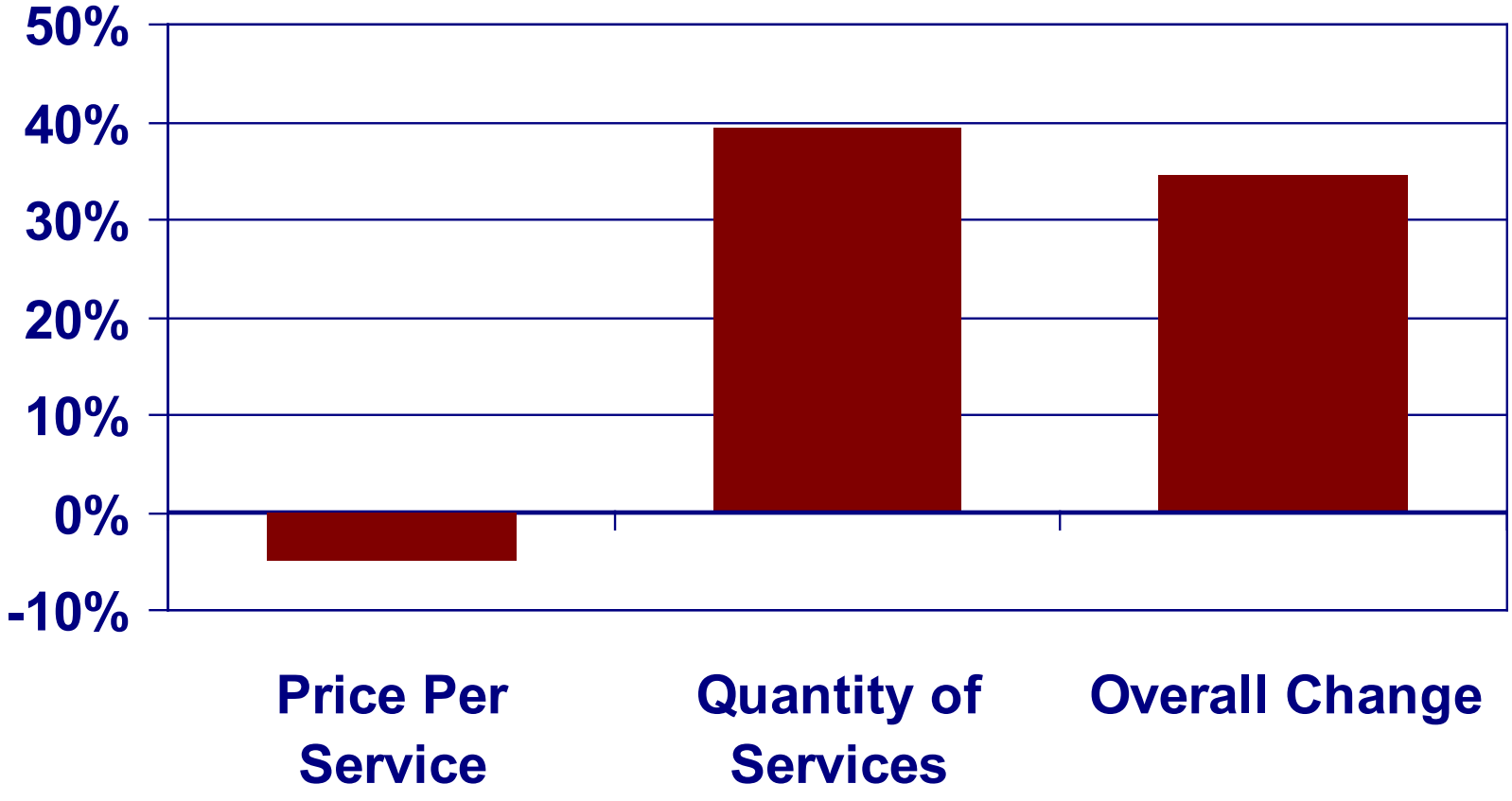
# Medicare Fee-for-Service

**"In previous reports, the Commission has recommended that Medicare adopt tools for increasing efficiency and improving quality within the current Medicare payment systems.... However, in the current Medicare FFS [fee-for-service] payment system environment, the benefit of these tools is limited for two reasons. First, they may not be able to overcome the strong incentives inherent in any FFS system to increase volume. Second, paying for each individual service and staying within the current payment systems (e.g., the physician fee schedule or the inpatient PPS [prospective payment system]) inhibit changes in the delivery system that might result in better coordination across services and lead to efficiencies or better quality across the system."**

***Reforming the Delivery System***
***Medicare Payment Advisory Commission***
***June 2008***

# Medicare: "Volume and Intensity"

## Composition of the Change in Real Medicare Physician Spending Per Beneficiary, 1997 to 2005

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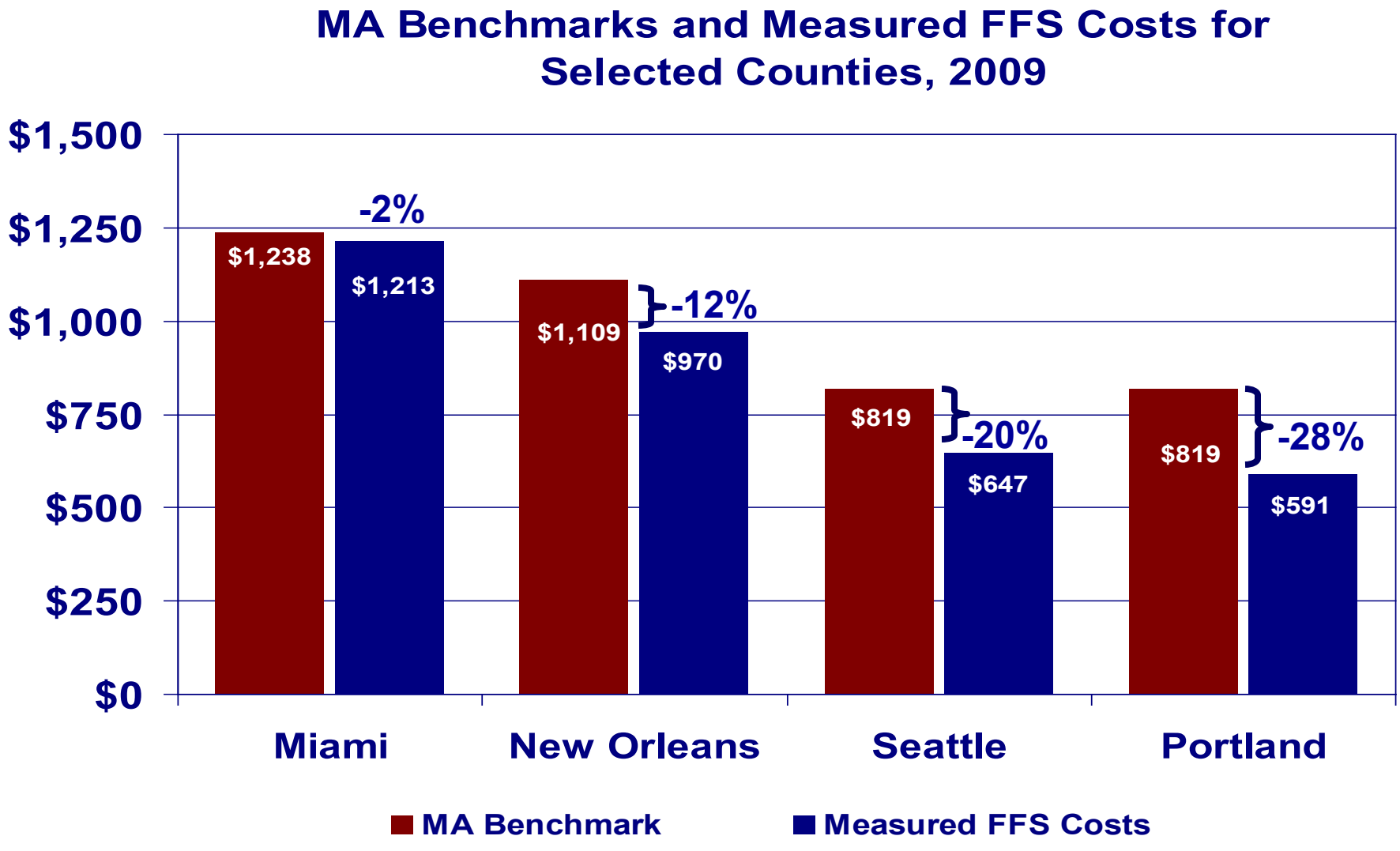
Source: "Factors Underlying the Growth in Medicare Spending on Physician Services," Congressional Budget Office, Background Paper, June 2007, p. 15.

# MA Benchmarks and Measured FFS Costs




Source: CMS 2009 Medicare Advantage Ratebook, available at: http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/

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# The Current Cost-Side Reform Agenda

**Ideas to "Engineer" a More Cost-Effective Delivery System:**

- Health Information Technology
- Comparative Effectiveness Research
- Reimbursement Reform (Pay for Performance, Value-Based Purchasing)

**Is the agenda up to the task?**

**<u>Reasons for the Status Quo</u>:**

- **Medicare FFS insurance rewards volume and intensity with higher profits**
- **Political/regulatory processes allow incumbents to use political influence to protect the status quo**
- **Beneficiaries stand to gain little from lower use as they frequently pay no additional cost-sharing when they use more services (FFS + Retiree/Medigap)**

# Conclusion

- The financial incentives embedded in Medicare FFS are important reasons today's delivery system looks and operates as it does.
- There is no evidence that our political and regulatory processes are up to the challenge of engineering a better system, even with promising new tools (HIT, P4P).
- Getting more value out of health care provision is likely to require a more fundamental rework of Medicare to shift financial incentives (for patients and providers) toward cost efficiency and away from unlimited volume.