Is There a Better Way to Reduce Growth in Medicare Spending?

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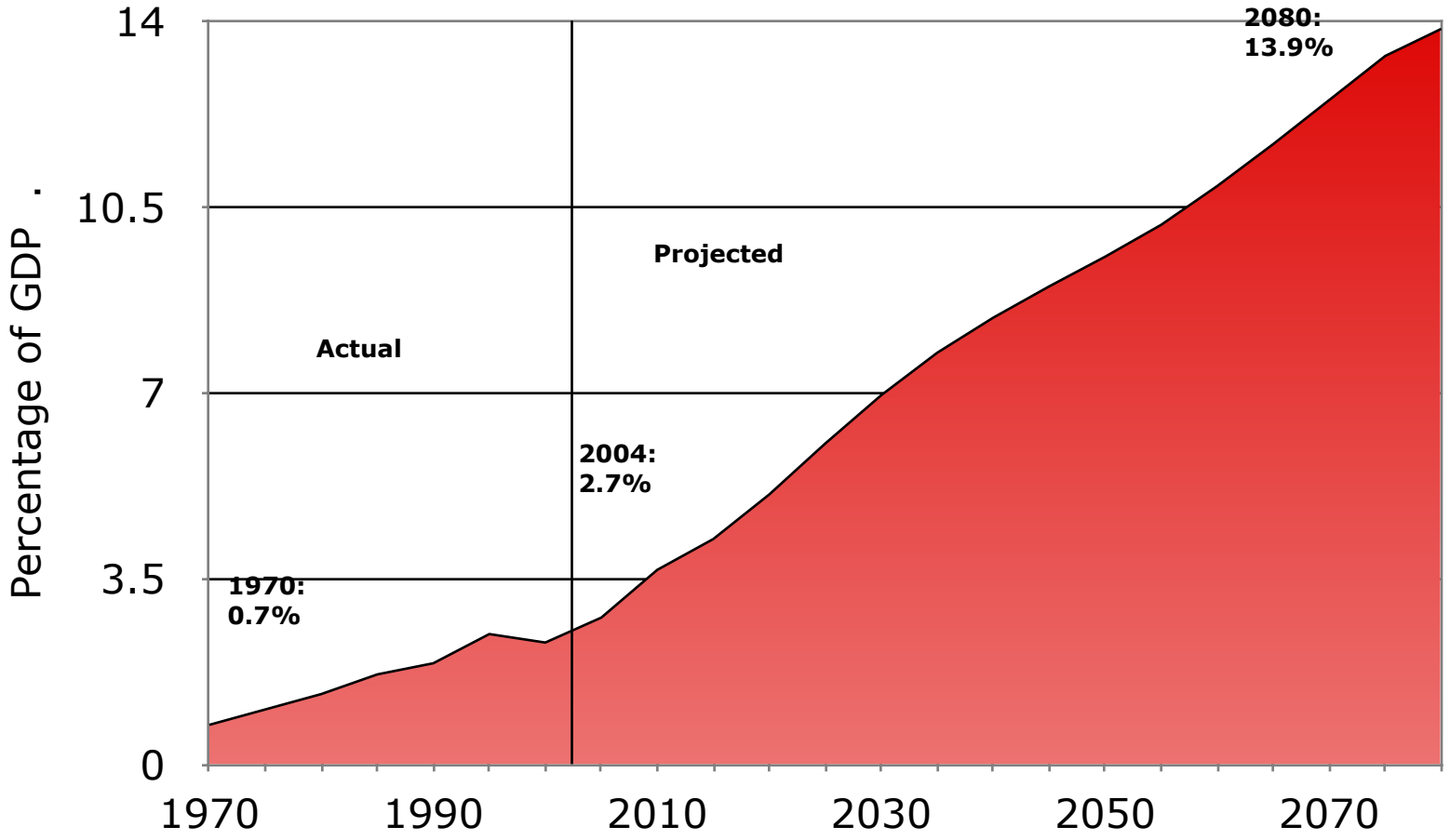
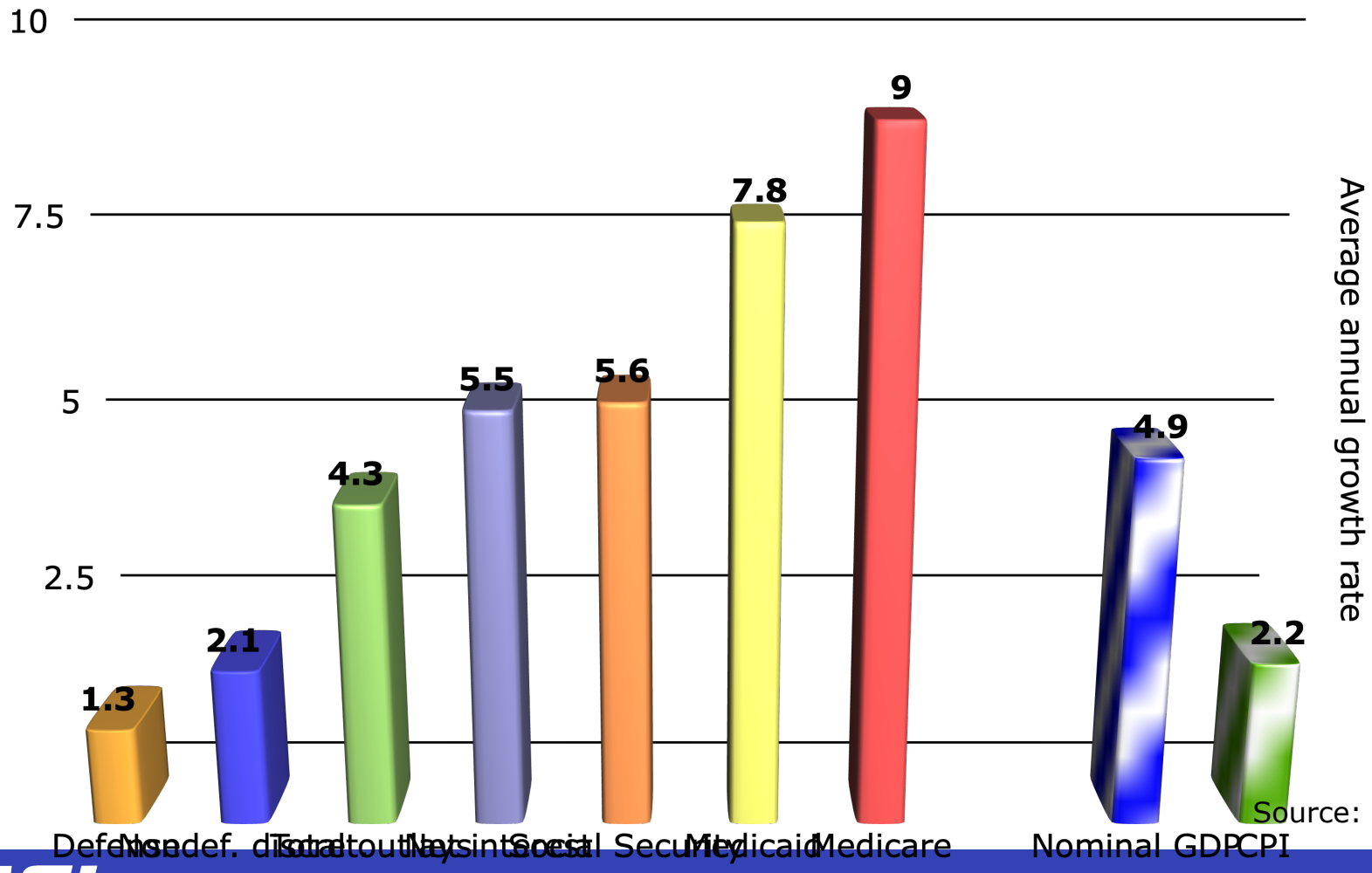
Medicare consumes an ever larger share of GDP



Source: 2004 Medicare Trustees report

Medicare outpaces other federal spending, 2005-2015



Source: CBO, 2005

Approaches to cost containment

Regulatory

- Set prices administratively
- Restrict access (Rx non-coverage)

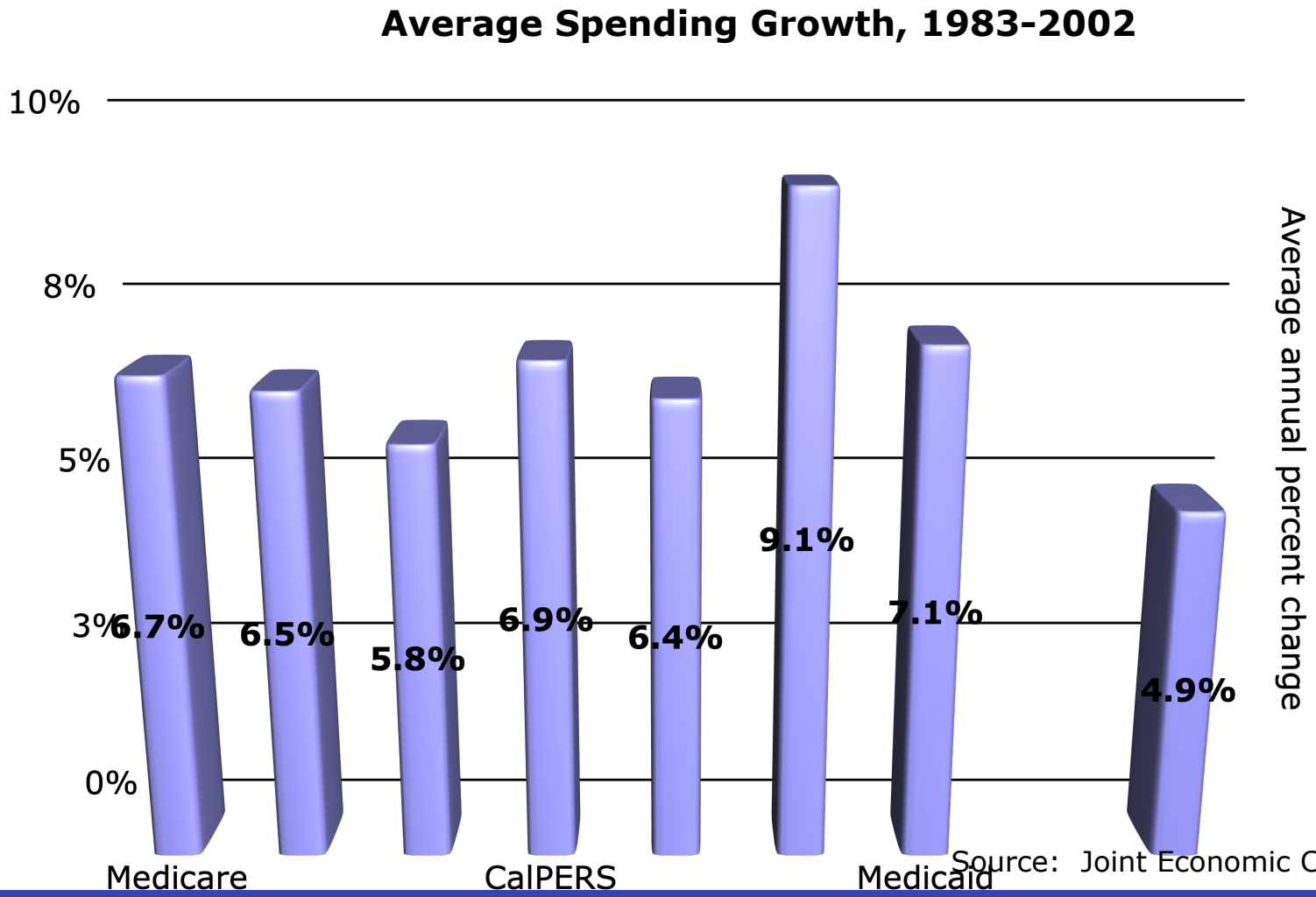
Technical/Scientific

- Improve health care delivery (IT, DM, evidence-based medicine, coverage tied to data collection)
- Improve patients (prevention)

Economic

- Realign incentives facing patients and providers

Cost containment track records



Source: Joint Economic Committee, 2003

Best practices to the rescue?

Disease management
- Promising concept, but will it reduce spending?
- CBO assessment

Evidence-based medicine
- Medical innovation outpaces evaluation
- Cox-2 scares – big gaps in knowledge
- Coverage contingent on data collection

Health IT
- Cultural, financial, privacy barriers

Prevention
- Near-term cost, long-term savings?
- Will patients respond?

Can the U.S. become more like MN?

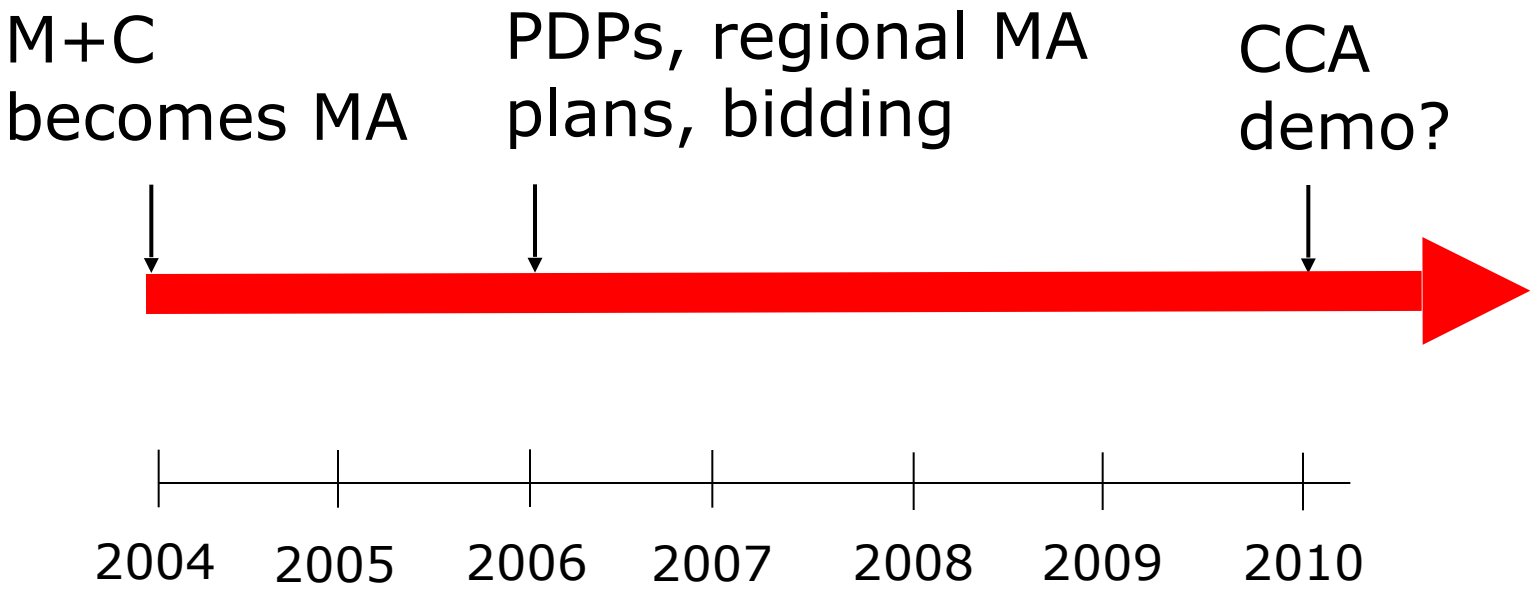
Medicare spending per enrollee, 2001

Minnesota	$4,767
U.S.	$6,237

➠**Lower spending, equal or better health outcomes**

Source: Dartmouth Atlas

New competition in Medicare



What's new about the new competition?

Bidding/negotiation process reflects plans' actual costs

Risk-sharing

- Risk adjustment, risk corridors, stabilization fund, network adequacy fund

Many more options for seniors

- Traditional Medicare or MA plan
- MA plan options: Regional PPO, local HMO or PPO, private FFS
- Choice of Medicare Rx plan (or none)
- Basic Rx coverage or enhanced coverage

Bidding can hold down cost…

DME competitive bidding demonstration

- Multiple sellers of equivalent products
- Price, quality, and customer service were considered
- Existing fee schedule provides price comparison
- Previous suppliers grandfathered in

Savings about 20% of fee schedule

- Wide range of discounts
- Bid prices exceeded fee schedule for certain products (surgical dressings)

Will MA competition work?

Competing plans are expected to participate in MA and PDPs

Impact on program spending uncertain:

- Risk corridors reduce plans' incentives to bid aggressively
- Impact of FEHBP-style negotiations?
- Plan overpayments and risk adjustment
- Bids may cluster around benchmark
- Savings may be used to enhance benefits, not lower costs
- Seniors may not adapt quickly to new choices—low MA market share?

CCA demonstration not likely

Comparative Cost Adjustment, aka premium support

- 6-year demonstration, beginning 2010
- No more than 6 sites
- Bidding determines premiums for MA and traditional Medicare
- Impact on traditional Medicare is phased in over 5 years

Precursors never got off the ground

- HCFA competitive pricing demonstration failed in Baltimore (1996) and Denver (1997)
- BBA demonstration failed in Kansas City and Phoenix (1999)
- Provider and plan resistance was key

Not in my back yard

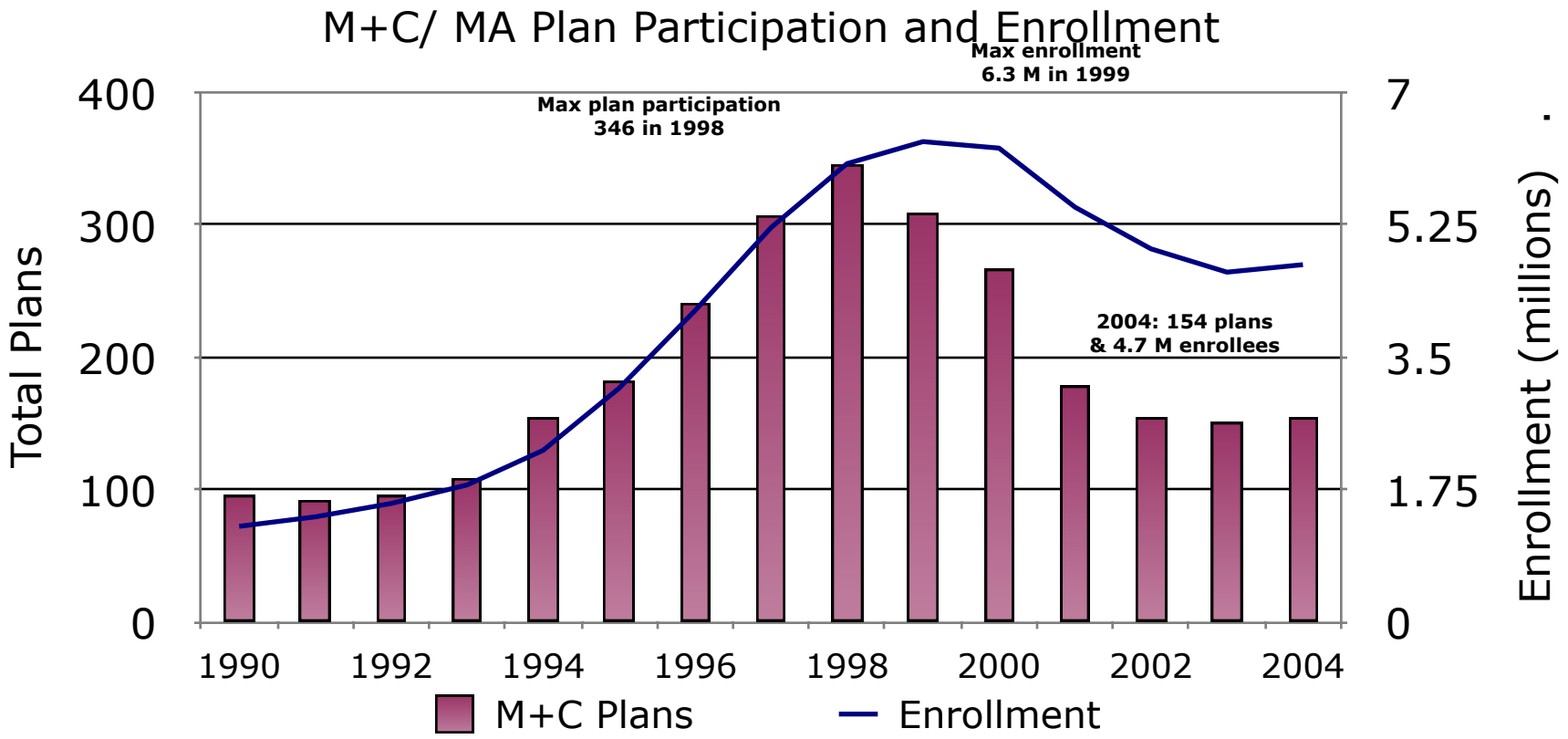
"If they want these pilot programs, they should only go to those states where the Senators voted for this bill."

-Senator Hillary Clinton (D-NY)

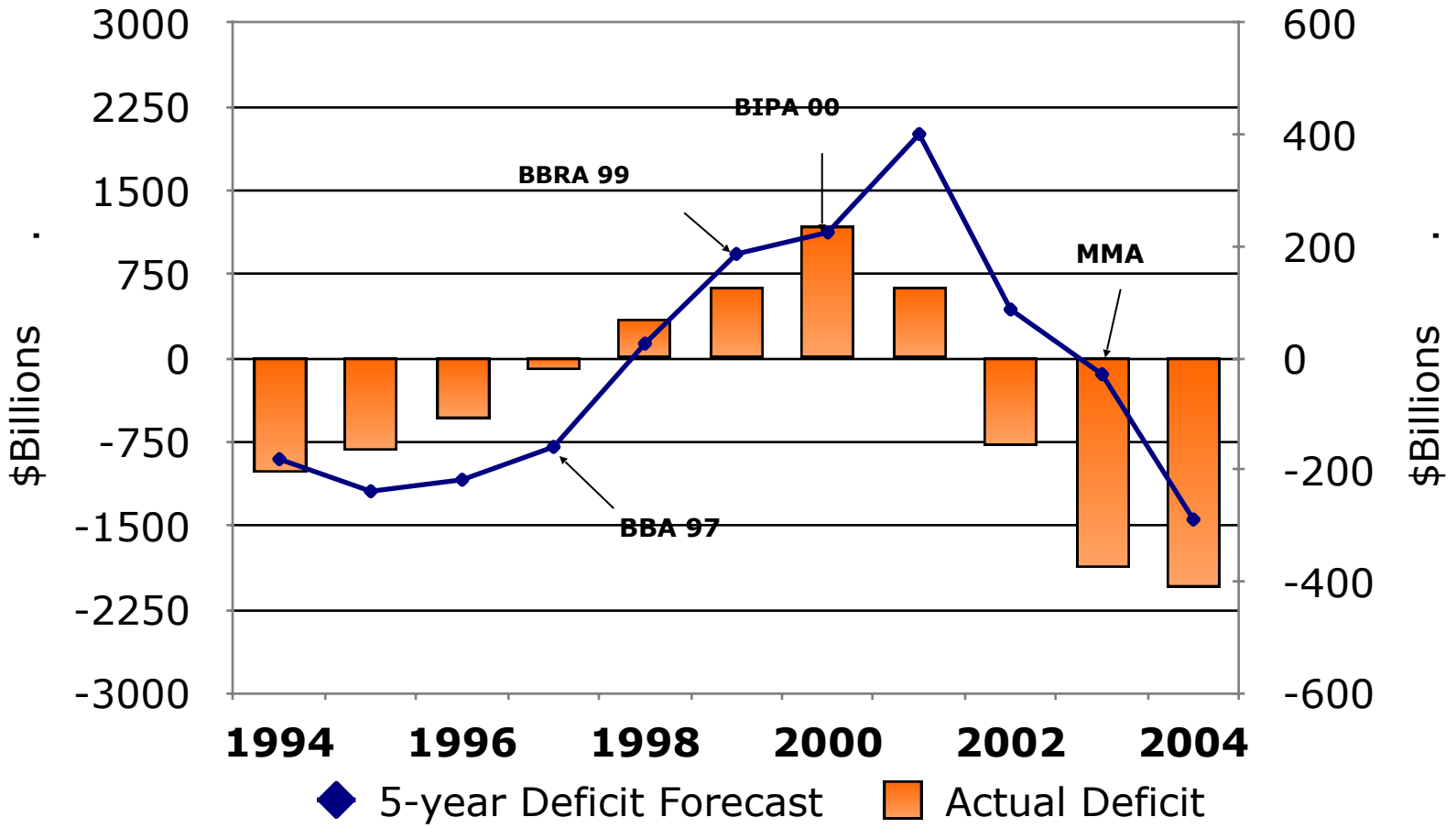
"I particularly oppose Michigan seniors being forced to participate in this ill advised experiment."

-Senator Debbie Stabenow (D-Mich.)

Past experience is sobering



Will history repeat itself?



Source: CBO