The Future of Private Plan Contracting In Medicare – A Reprise

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Possible Objectives of Private Plan Contracting in Medicare

- Decreased government spending
- Additional benefits without new entitlements
- Positive spillover effects
- Enhanced choice for beneficiaries
- Improve capacity for innovation

-- Berenson and Dowd, July 2002, AARP PPI Report

A Post MMA Report Card– Decreased Government Spending

- MA plans are paid about 116% of what traditional Medicare would spend on the same person
- Because significant MA enrollment, a major **new** budget cost (CMS-OACT point of view)
- Because insignificant enrollment, not a major new budget cost (CBO position)
- Will the 2006 bidding model reduce government outlays? Doubtful

Additional Benefits Without New Entitlements

- There is a rather expensive, if doughnut holed, new Part D benefit, as well as certain other benefit enhancements, such as routine physical for age-ins.
- TrOOP (true out of pocket) costs limit MA plans from offering supplemental Rx benefits
- With "excess," plans still able to offer additional benefits --- the main additional benefit being cost-sharing buy-down

Positive Spillover Effect

- Also includes a related concept of "benchmark competition," e.g., the USP and Fed-Ex
- MedPAC, CMS have been actively looking for lessons from health plans for traditional Medicare (but not necessarily just from Medicare plans); spillover can occur to some extent from commercial plans to Medicare
- Increasing geographic penetration of MA plans could stimulate greater benchmark competition, but from PPOs and private FFS?

Enhanced Choice for Beneficiaries

- The apparent major objective of MMA – even at increased cost
- But do regional PPOs satisfy the kind of choice that beneficiaries desire from plans, e.g., to keep their alternative delivery system into Medicare and to get additional benefits?
- That is, do people value PPO choice itself or the provider choice that PPOs permit commercially and Medicare already provides?

Improved Capacity for Innovation

- It appears that large health plans are best positioned to seek to become stand-alone drug plans (PDPs) in traditional Medicare, as well as MA-PDs
- Section 721 is a major pilot of disease management, with some health plans being the winning bidders – in some ways health plans are better positioned than D.M. companies to support chronic care management in Medicare

Other Implicit MMA-Related Rationales for Private Plans

- To permit management of a drug benefit within a medical management context to better promote quality and efficiency
- To substitute private monopsonists, less encumbered by procedure and politics, for traditional Medicare
- To provide a structural replacement that incorporates the role of and substitutes for traditional Medicare

The Unstated "Logic" of the MMA

1. Expand private plan options to everywhere
2. Initially, pay lots more to private plans so that providers get paid more and beneficiaries get more
3. Traditional Medicare "withers on the vine" -- it dies a natural death, without political fingerprints
4. With an FEHBP structure firmly in place, install premium support/defined contribution to control government spending (with or without a "comparative cost adjustment" demonstration)