"Medicare Modernization in a Polarized Environment: Facing the Challenge"

National Academy of Social Insurance

The Future of Medicare Advantage

Presentation by Jack Ebeler **January 27, 2005**

MAKING HEALTH CARE BETTER

ACHP
ALLIANCE OF COMMUNITY HEALTH PLANS

What is the future of Medicare Advantage?

Outline:

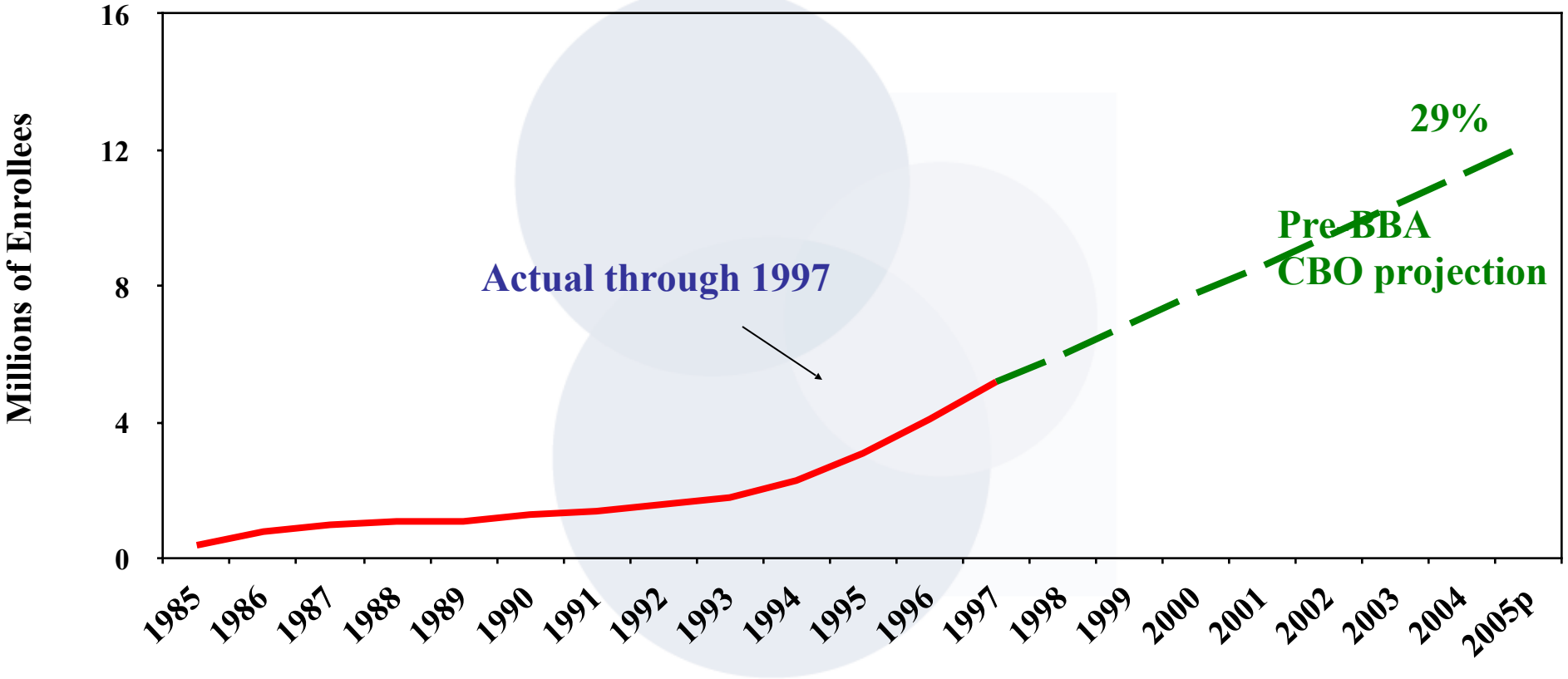
- First look back at BBA 1997
  - What expected?
  - What happened?
  - What lessons?
- Then look at MMA
  - What expected?
  - What might happen?
- Key factors for future

Place ourselves back in 1996-1997

What was going on in 1997?

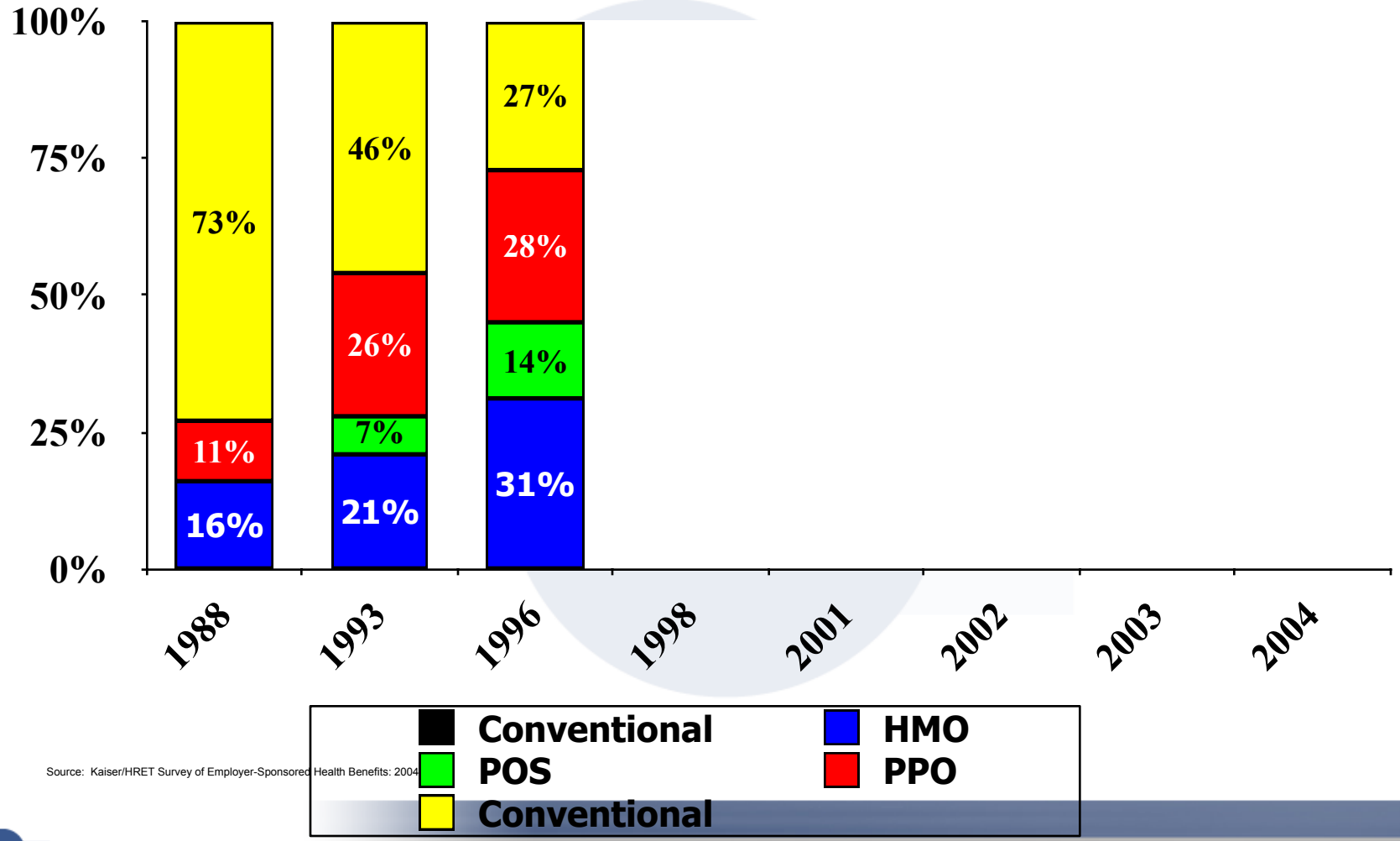
- Post-health care reform
- Fundamental debates over future of Medicare – structure and funding – 1995 government shut-down
- 1997 - renewed focus on deficit reduction, including Medicare (funding and structure)
- Private market changing

Actual enrollment in Medicare TEFRA HMOs had grown to 5 million, and CBO projected continuing growth pre-BBA 1997



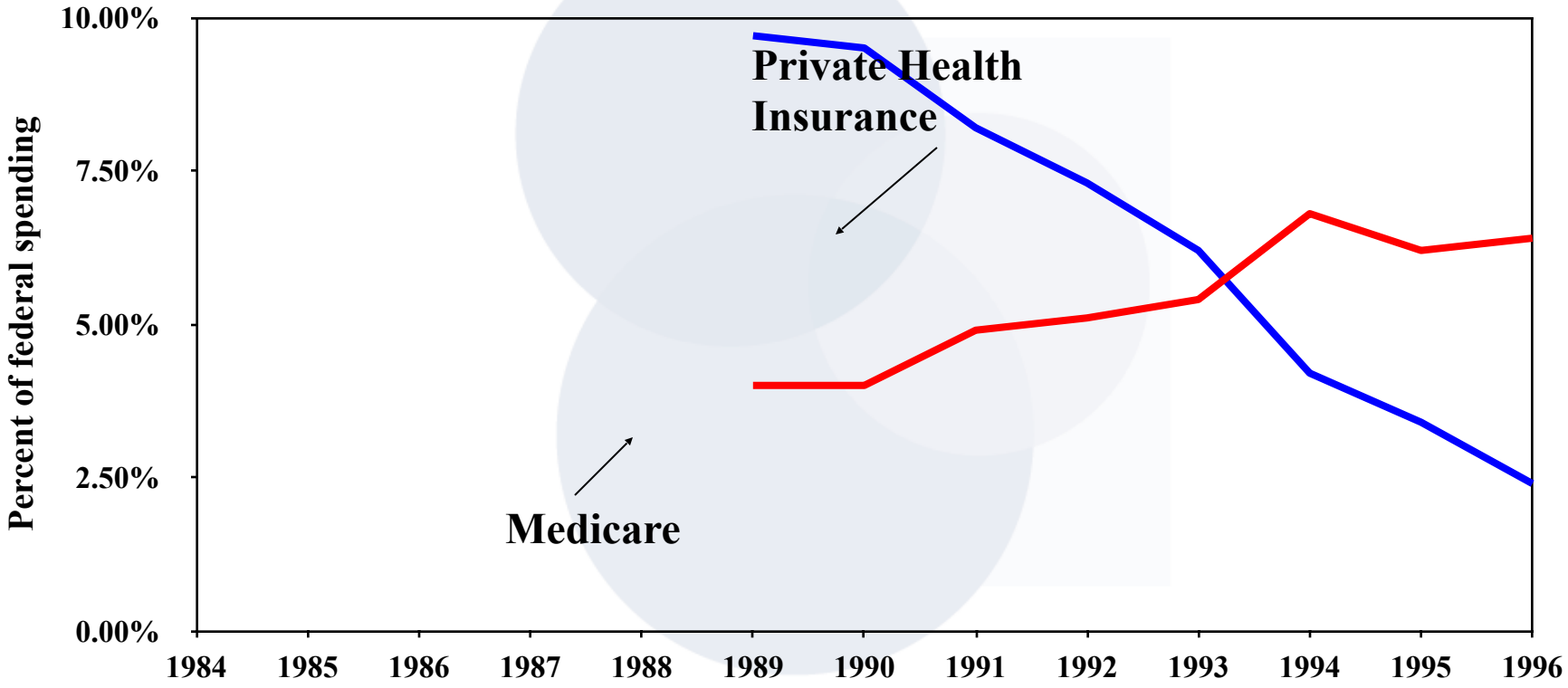
Congressional Budget Office BBA Projections
Total Enrollees data from Social Security Trustees Report
Note: 2004 data from Mathematica Policy Research, Inc. Medicare Advantage and Medicare Beneficiaries Monthly Tracking Report for December 2004

There was increasing enrollment in managed care in the employment market from 1988-1996



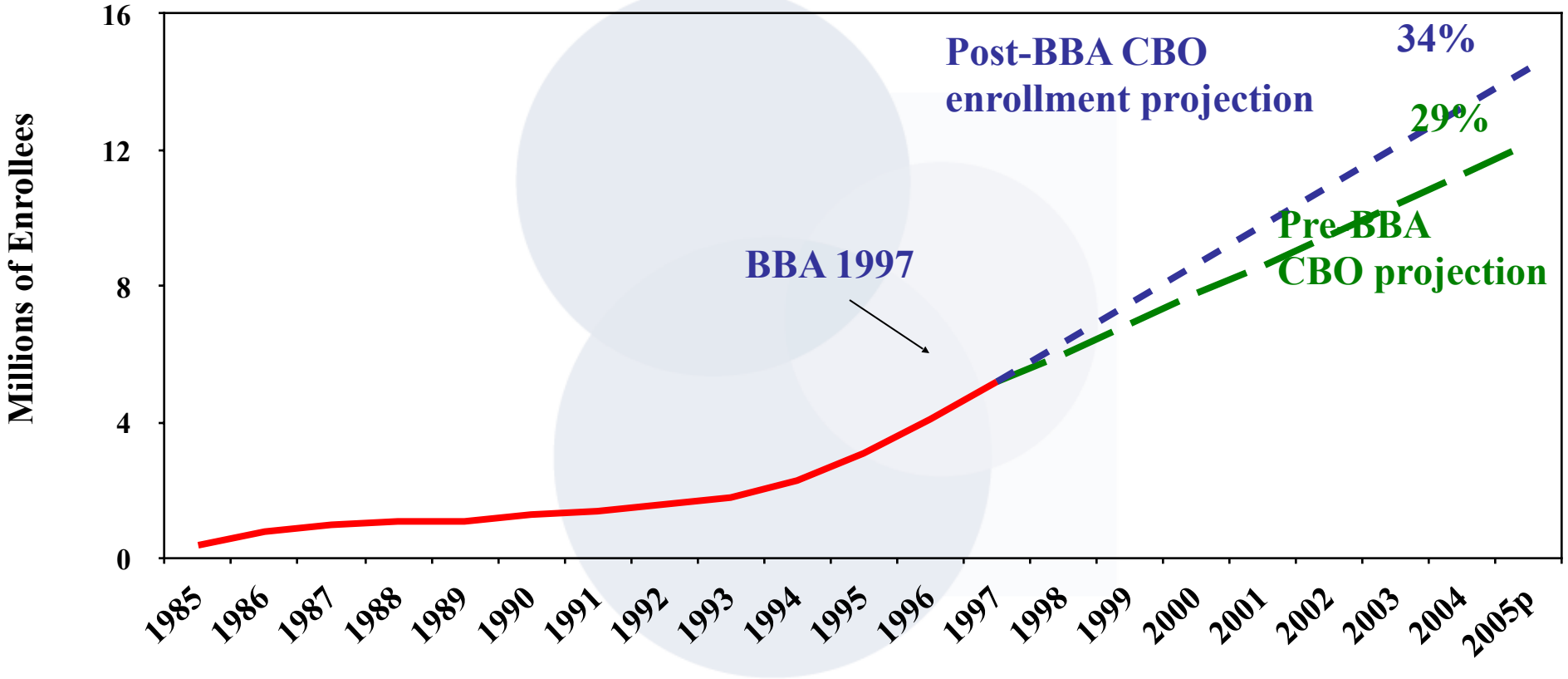
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004

Real increases in Medicare spending per capita were increasing while private health insurance dropped, 3 year rolling averages, 1989-1996



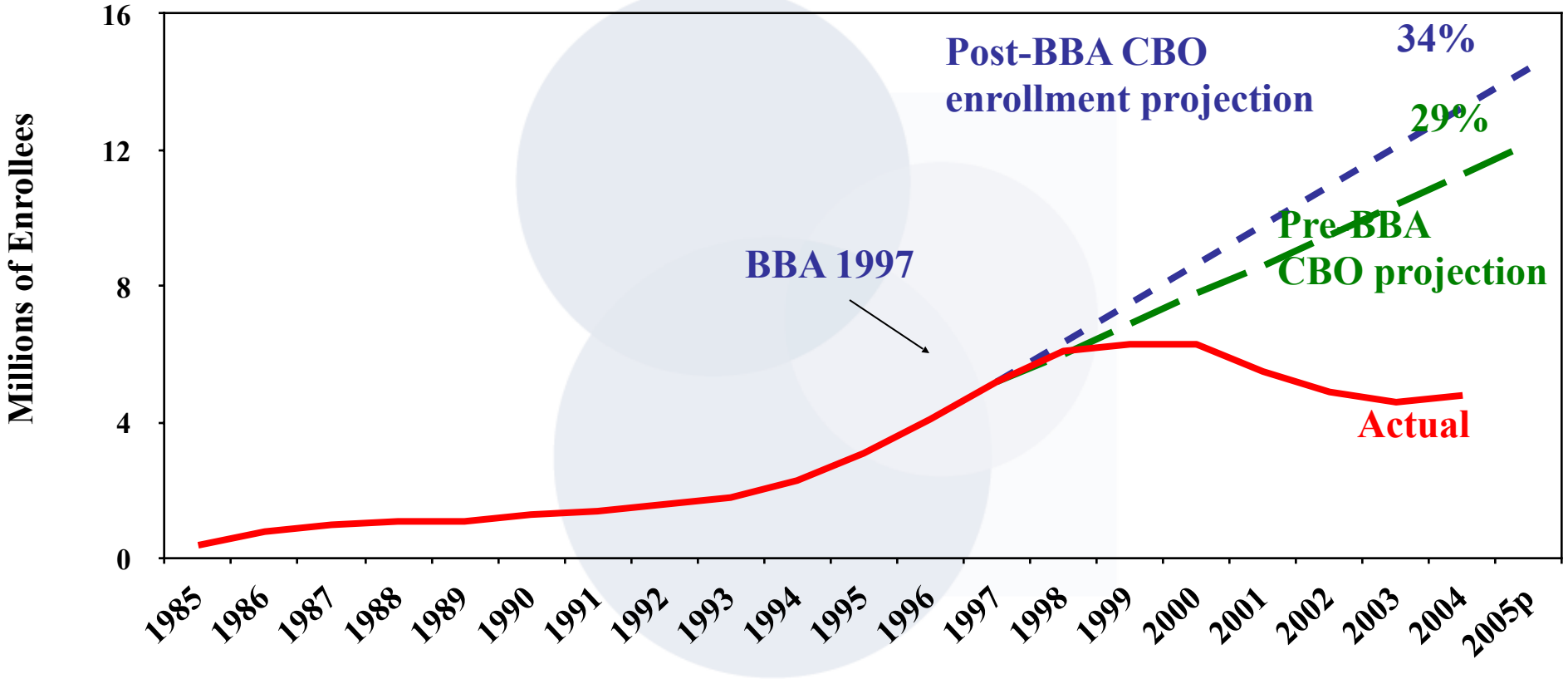
ACHP computation from Office of the Actuary, National Health Statistics Group, January 2005

With enactment of Medicare+Choice in BBA 1997, enrollment in private was projected to increase further



Congressional Budget Office BBA Projections
Total Enrollees data from Social Security Trustees Report
Note: 2004 data from Mathematica Policy Research, Inc. Medicare Advantage and Medicare Beneficiaries Monthly Tracking Report for December 2004

But actual enrollment in Medicare+Choice fell far short of the BBA 1997 projections



Congressional Budget Office BBA Projections
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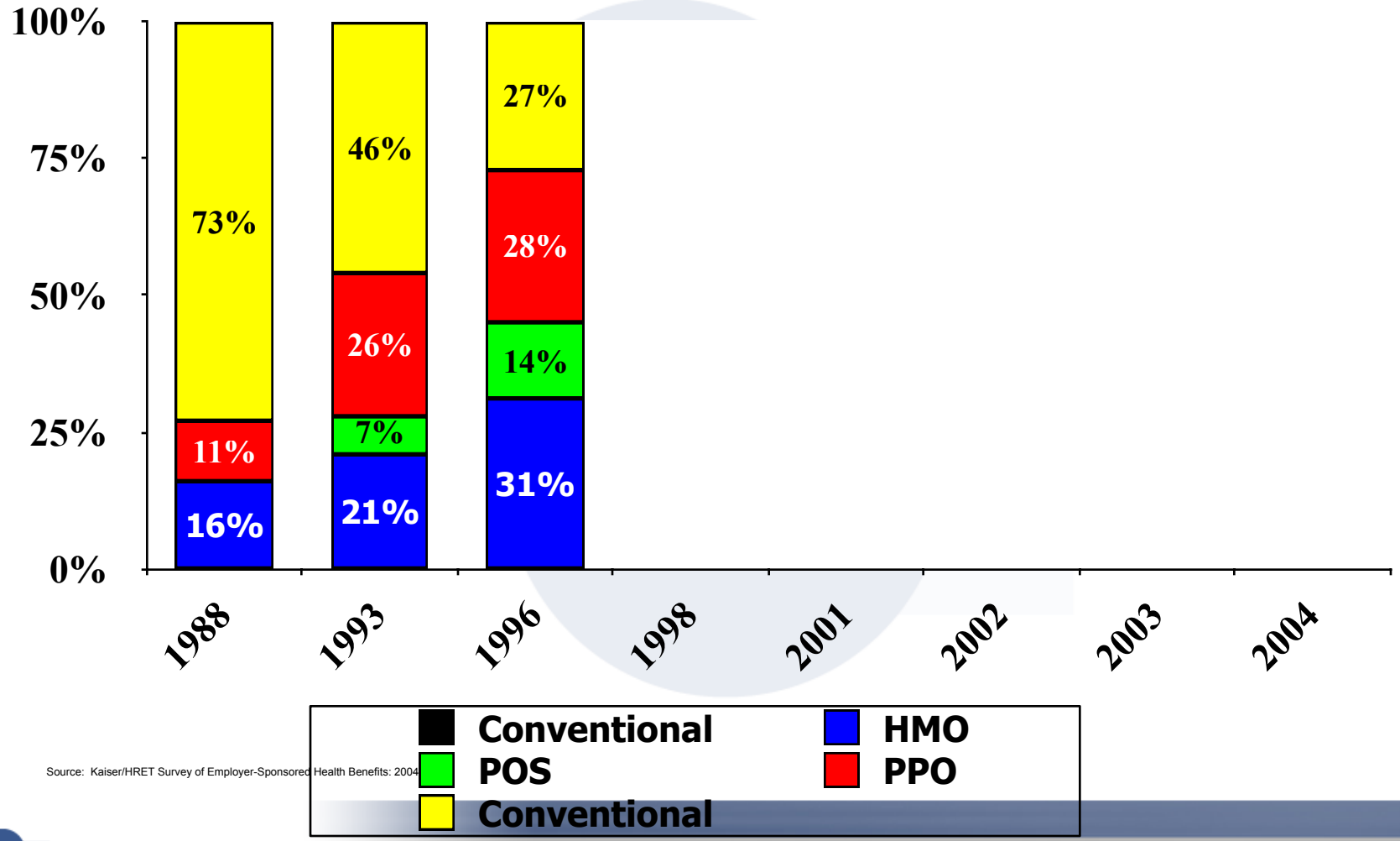
What happened?

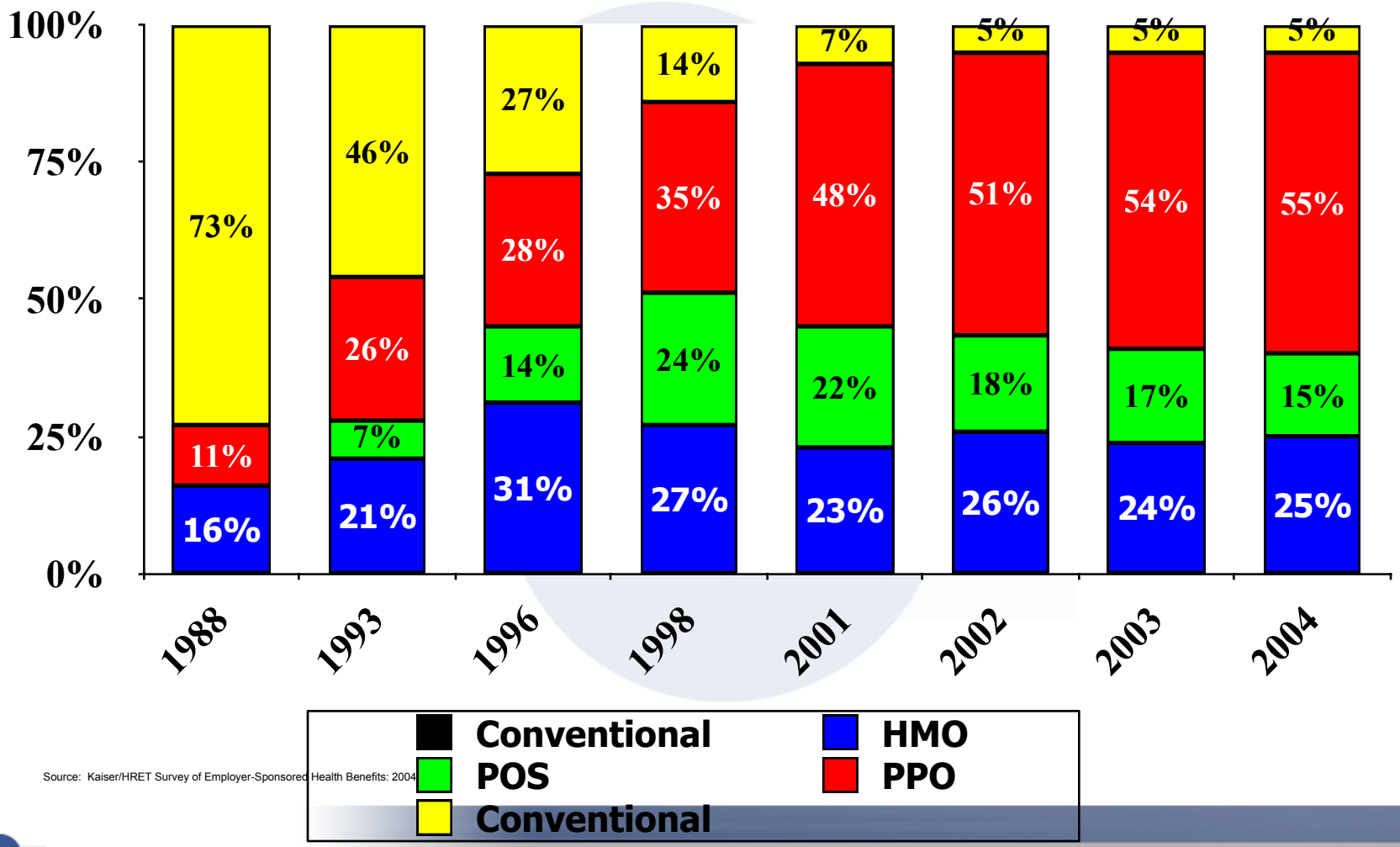
- Commercial market changes - shifted to much "looser" managed care, more PPOs
  - Managed care "backlash" in mid- late 90s
  - Very tight labor market
- Not a magic bullet - comparative Medicare/private growth story much more complicated
- Impetus for change – health plans, not beneficiaries
- BBA 97 coupled structural change with savings - deep funding constraints across traditional Medicare and M+C – and that combination is always difficult

There was increasing enrollment in managed care in the employment market from 1988-1996



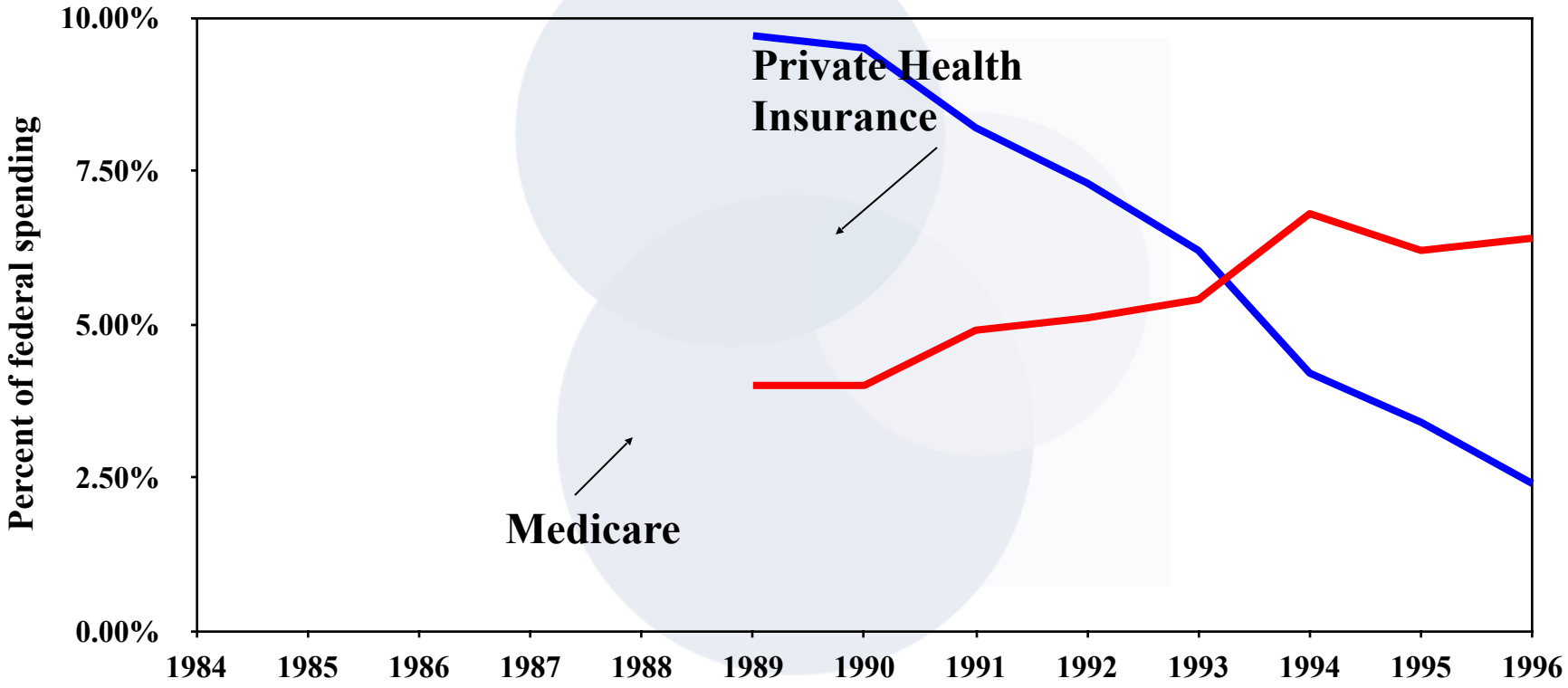
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004

But commercial market started shifting to looser managed care about time BBA 1997 enacted



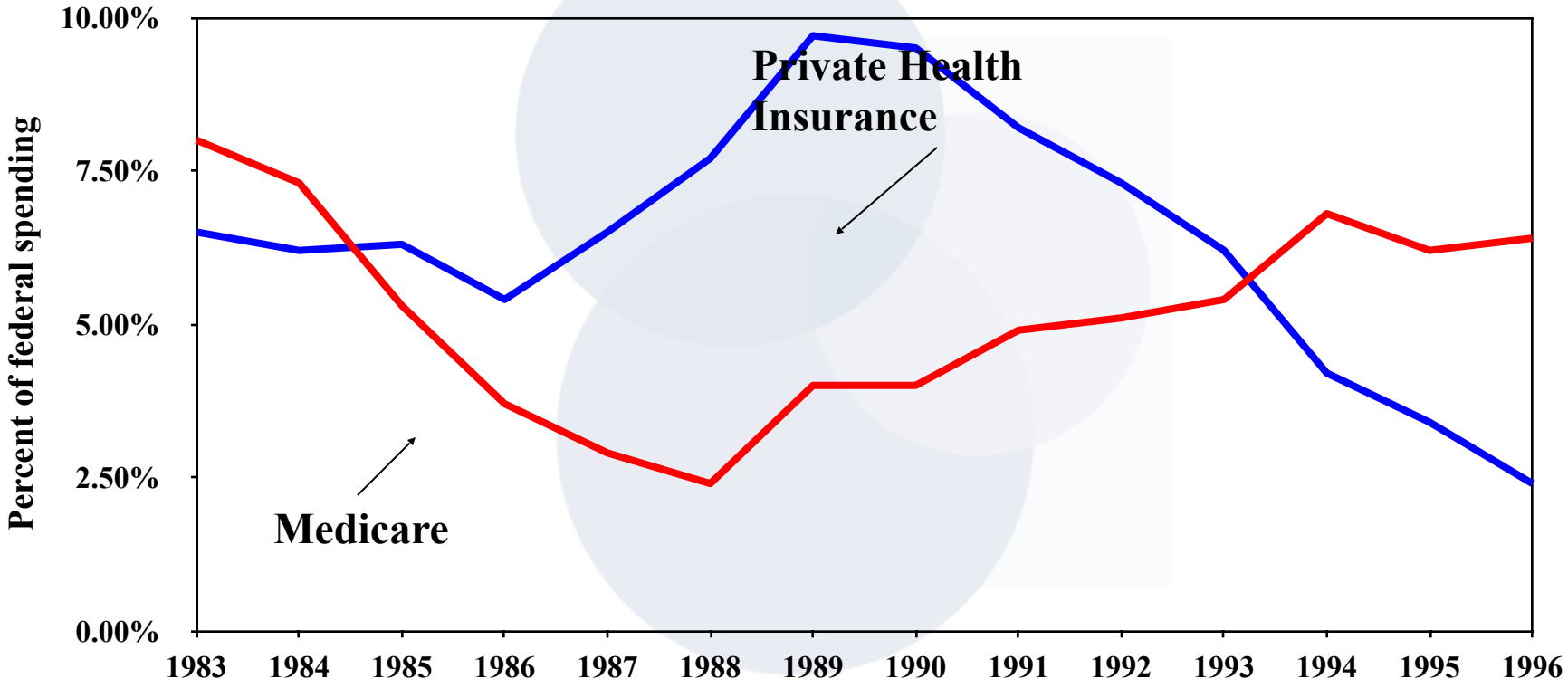
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004

Real increases in spending per capita under Medicare and private health insurance, 3 year rolling averages, 1989-1996 …



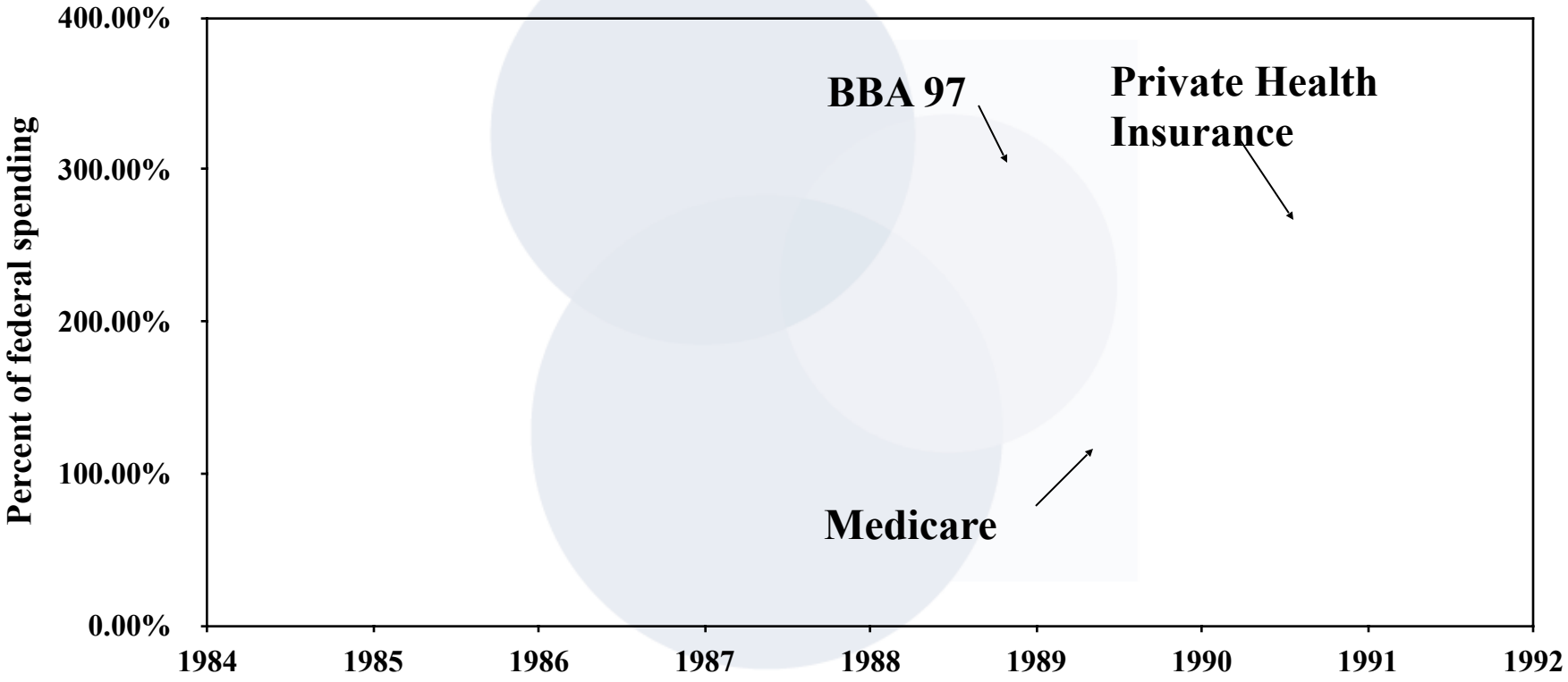
ACHP computation from Office of the Actuary, National Health Statistics Group, January 2005

Real increases in spending per capita under Medicare and private health insurance, 3 year rolling averages, show more cyclical trend



ACHP computation from Office of the Actuary, National Health Statistics Group, January 2005

BBA 97 dropped overall Medicare growth rate substantially as private health insurance began to increase, 3 year rolling averages, 1983-2003



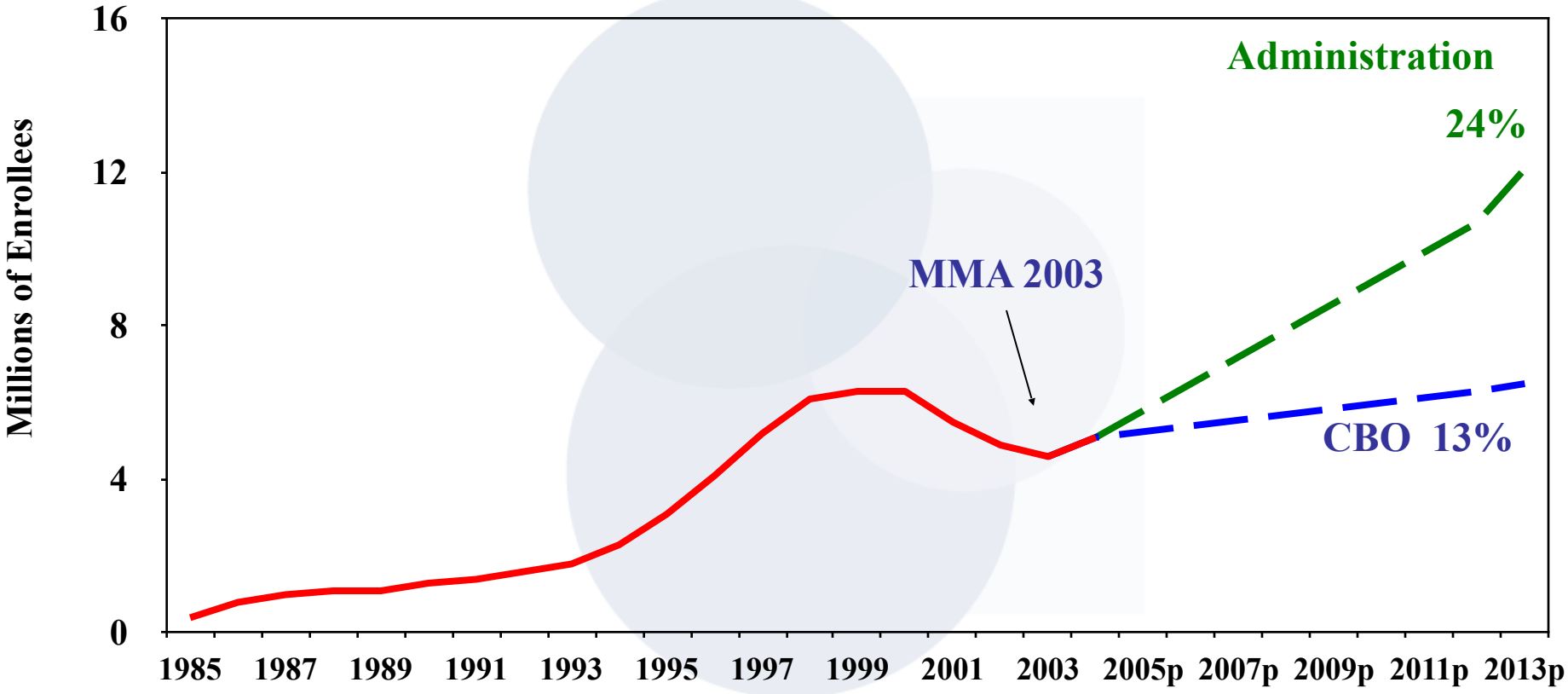
ACHP computation from Office of the Actuary, National Health Statistics Group, January 2005

The result….

- Consumers increasingly concerned about approach – private and public
  - Private market changed
  - Easiest to hold tight and not change
- In Medicare, M+C plans:
  - Revised, expanded networks
  - Established, increased premiums, coinsurance
  - Decreased supplemental benefits
- That lessened attractiveness of plans for beneficiaries
- Plans either stabilized or exited markets

Back to today…

What will MA enrollment be? Differences between CBO and CMS



Congressional Budget Office. The Budget and Economic Outlook: An Update Washington, DC, 2004
*MMA Projections from CBO

What is future of Medicare Advantage ?

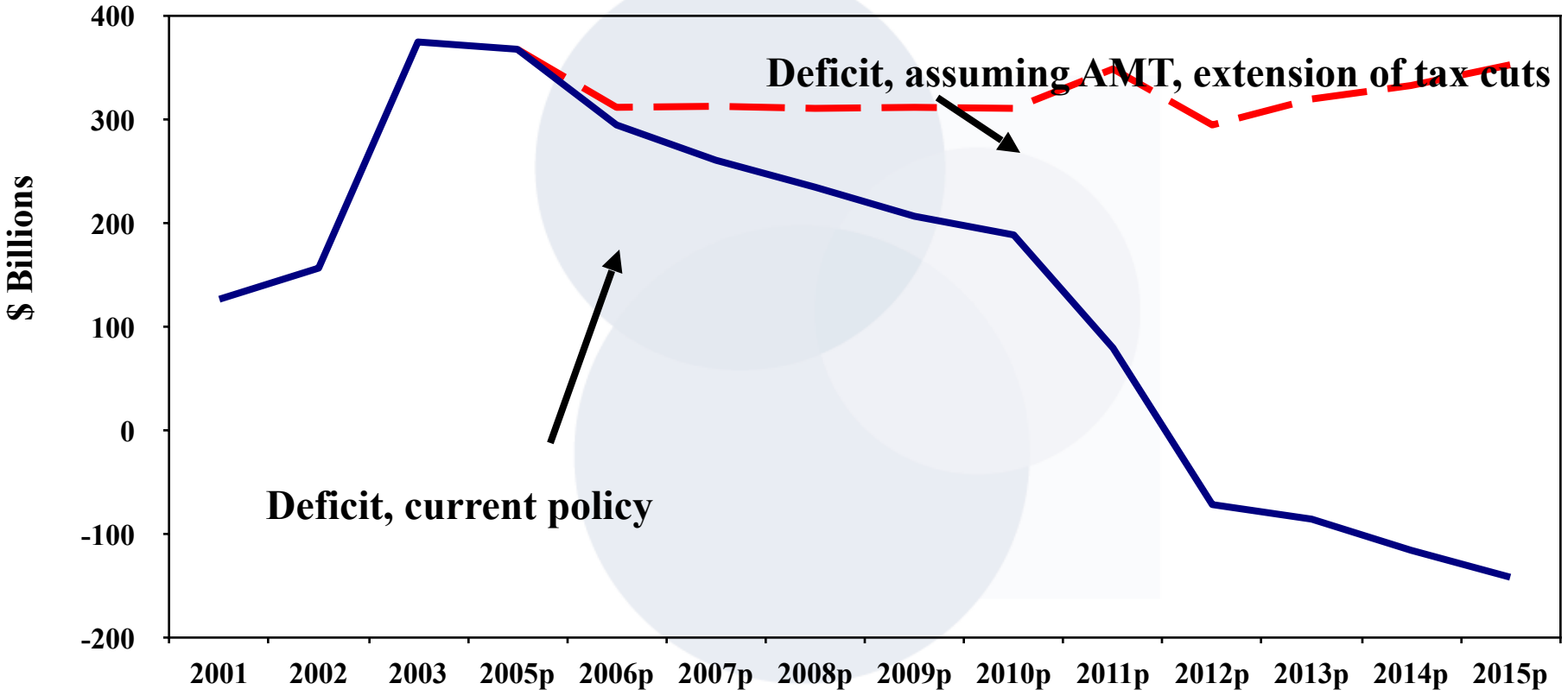
Depends on:

- Federal funding for all Medicare
- What happens in the private market
- Enrollment shifts – especially Medigap population
- Viability of PDP only plans
- Ability to implement low income provisions

What will happen to Medicare funding levels – FFS and MA?

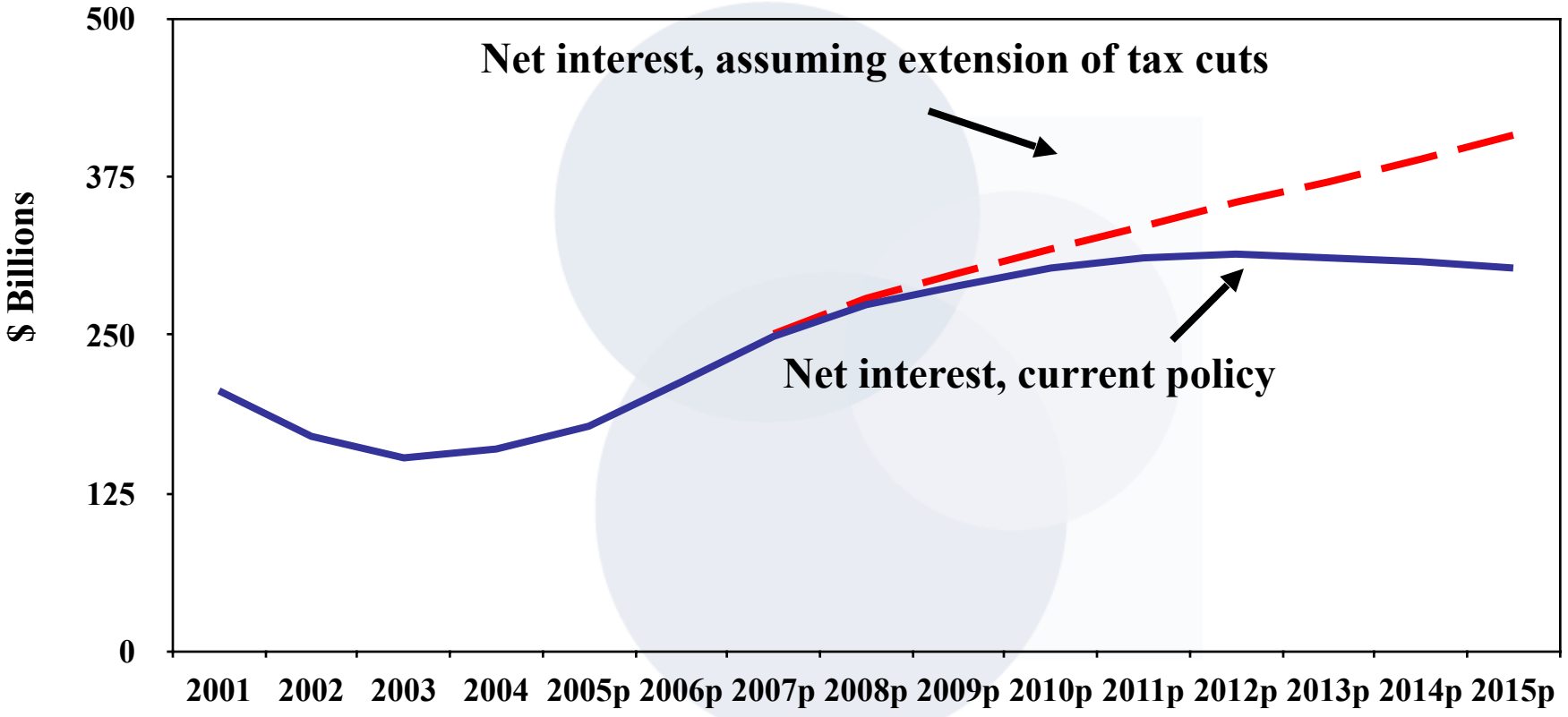
- MMA was coupled with initial payment increases (lesson from 1997?)
- But what about longer-term?
- Fiscal situation points to reductions.

The current policy deficit could begin to shrink, but not if tax cuts are extended – with Iraq …



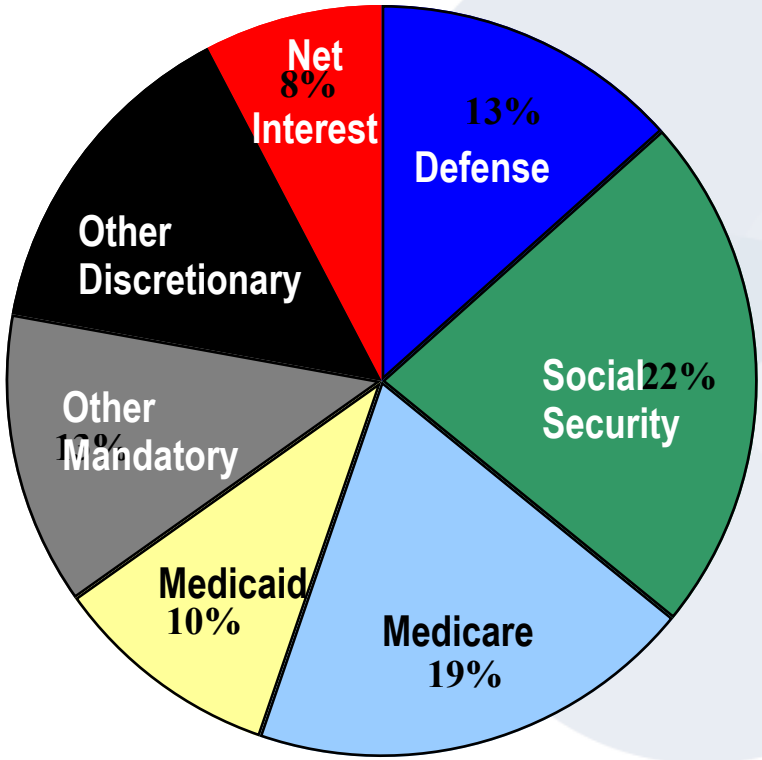
Congressional Budget Office. The Budget and Economic Outlook Washington, DC, 2005

Federal interest payments on the national debt increase as deficits accumulate



Congressional Budget Office. The Budget and Economic Outlook Washington, DC, 2005

Federal spending is dominated by five key items – including Medicare (2015 projections)



2015 Total Federal Outlays =

$3,706 Billion

Congressional Budget Office. The Budget and Economic Outlook Washington, DC, 2005

Outlook - Funding

MMA increases for 2005-2006? –2007? will likely be maintained

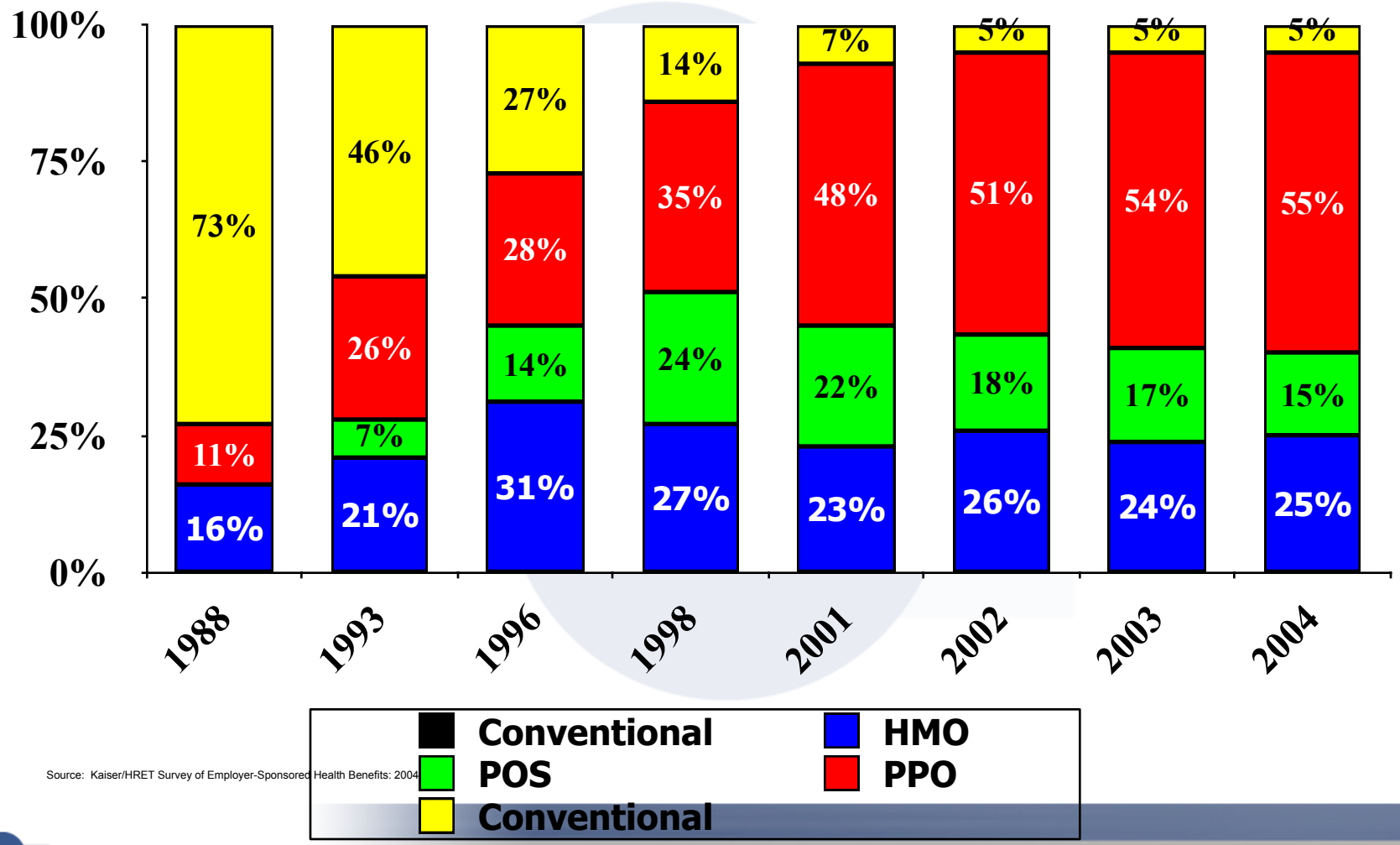
Anticipate constraints for all Medicare, including the Medicare Advantage program . . .

. . . Any plan that enters the MA program in anticipation of funding at the 2004-2006 levels FOR LONG TERM (2007-8? or later) is either

- foolish,
- a short-term participant,
- or can't count

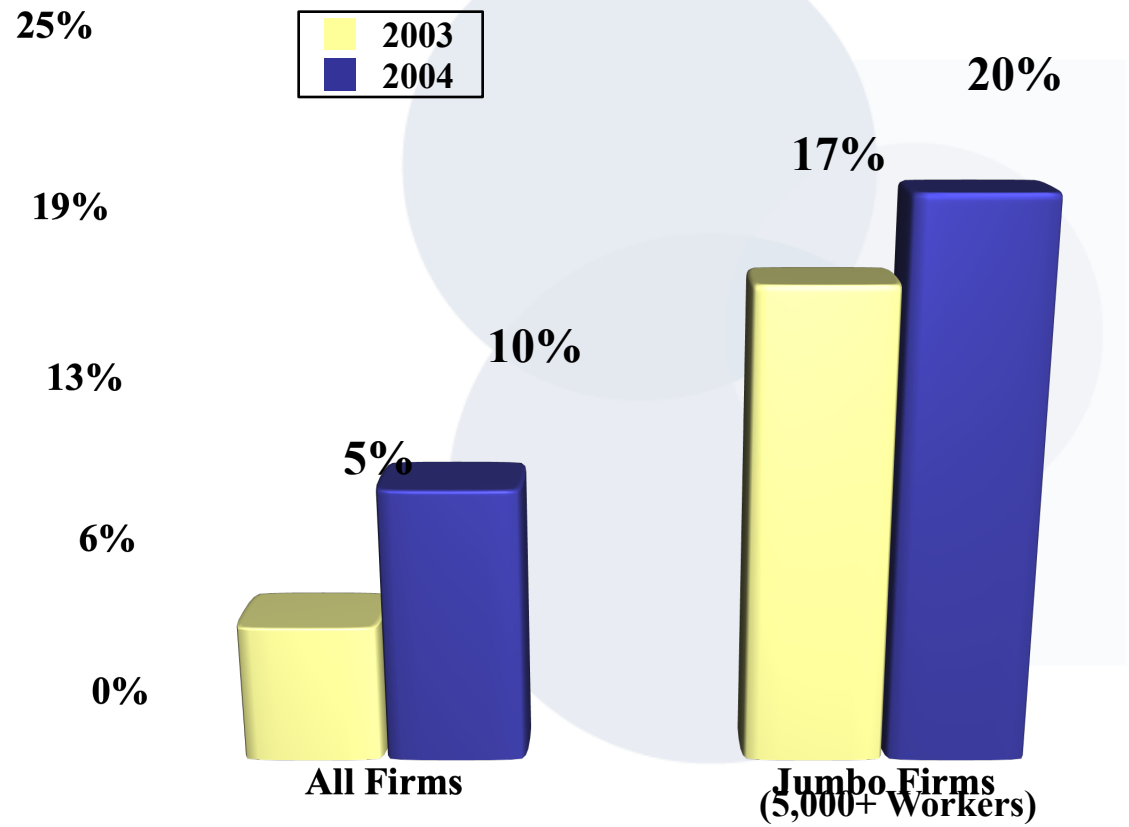
What is happening in private market?

Commercial market started shifting to looser managed care after BBA 1997 enacted



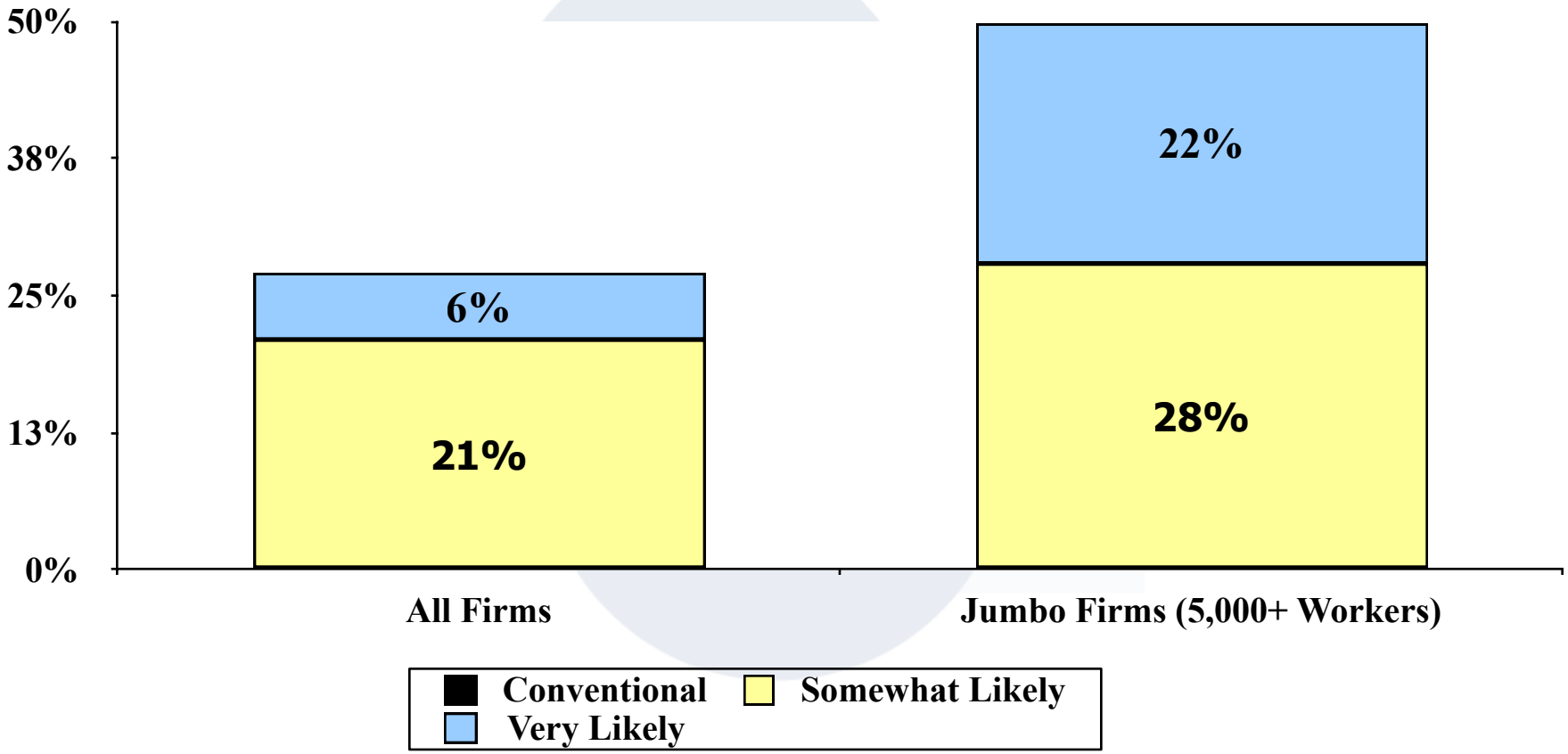
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004

Now, even more changes - more firms offering employees a high-deductible health plan, 2003-2004



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits 2004

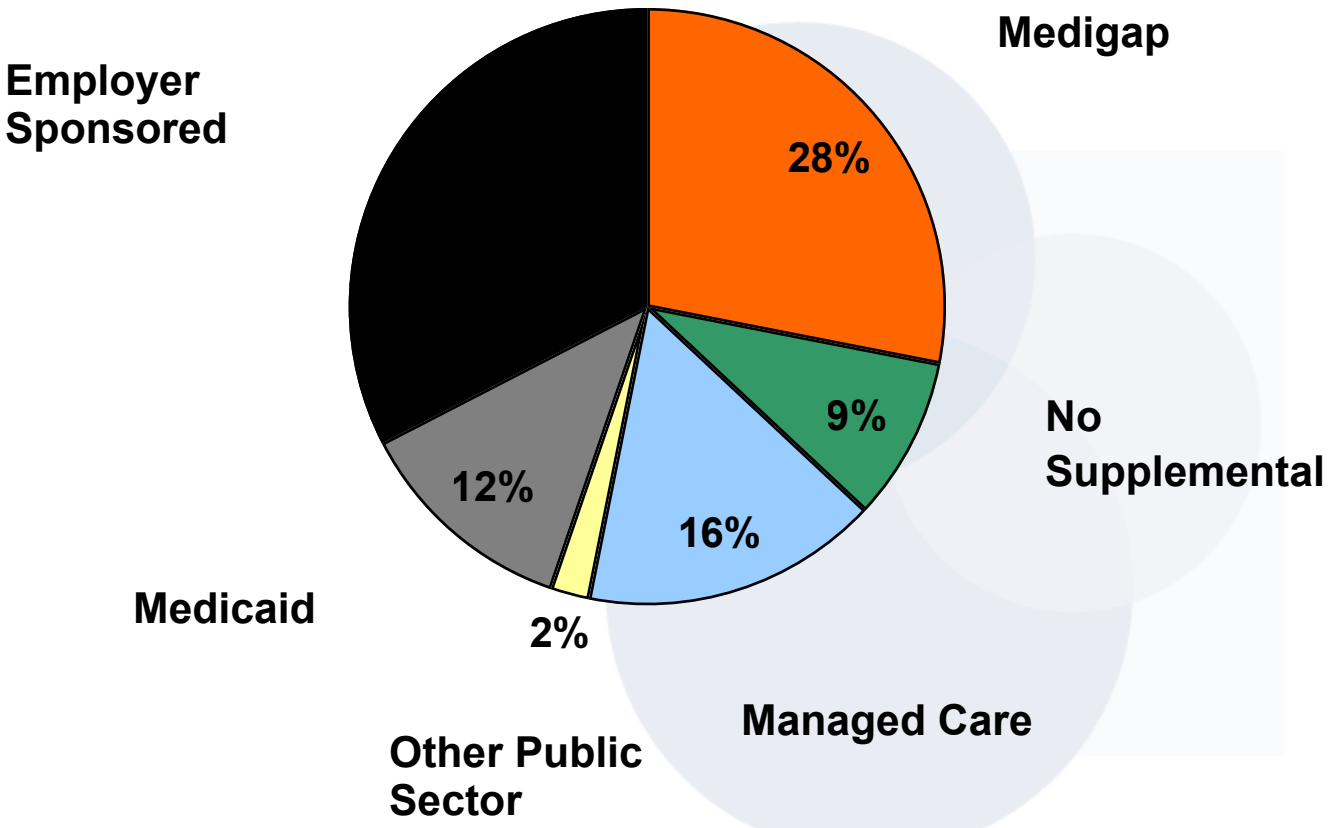
Employers with high likelihood of offering high-deductible health plan with a personal or health savings account option in the next two years



Kaiser/HRET Survey of Employer-Sponsored Health Benefits 2004

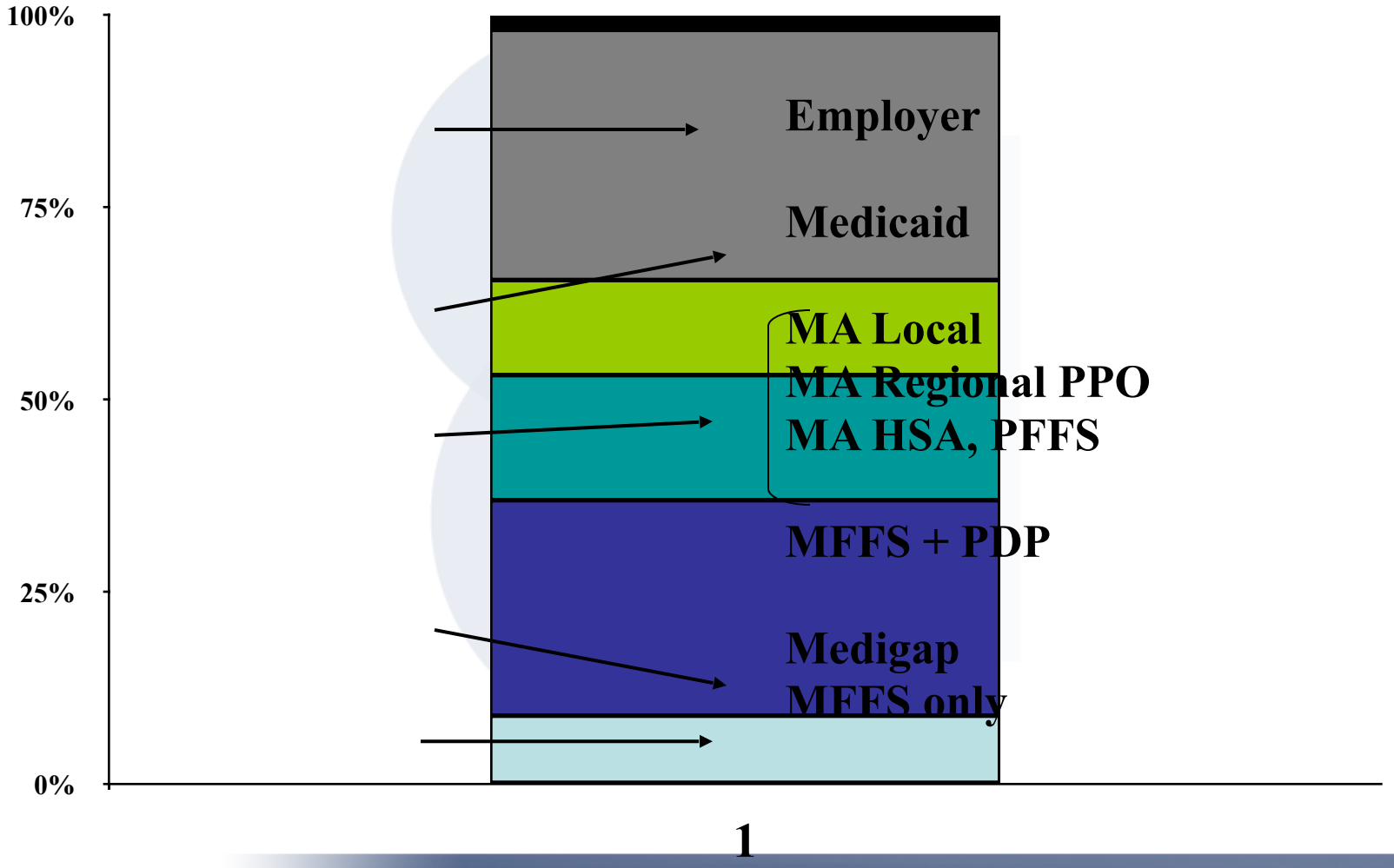
Where would enrollment shifts come from?

Medicare beneficiaries currently have a range of options

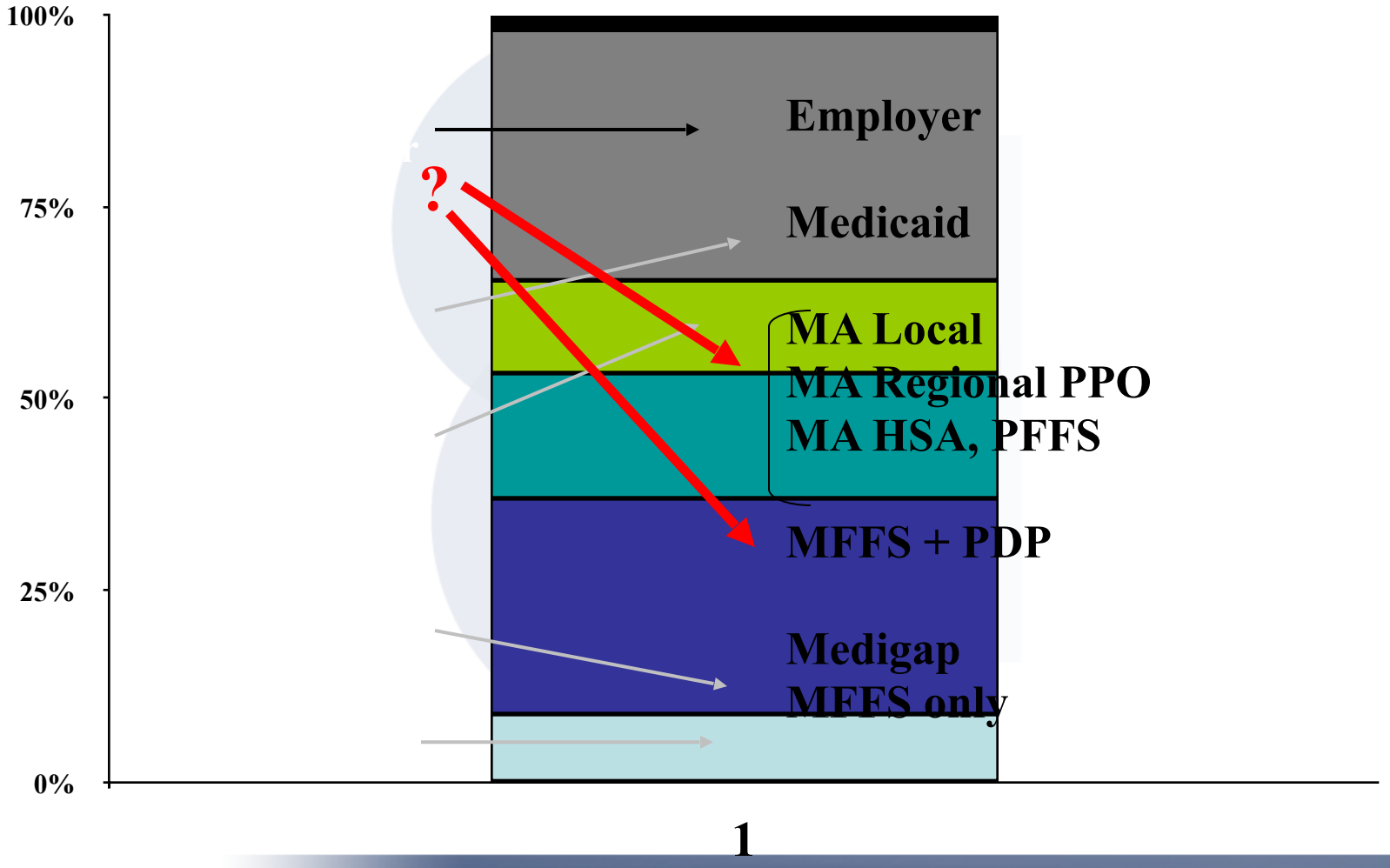


MedPAC. Healthcare Spending and the Medicare Program June 2004.
Note: Data based on noninstitutionalized Medicare beneficiaries. Chart depicts 2001 percentages.

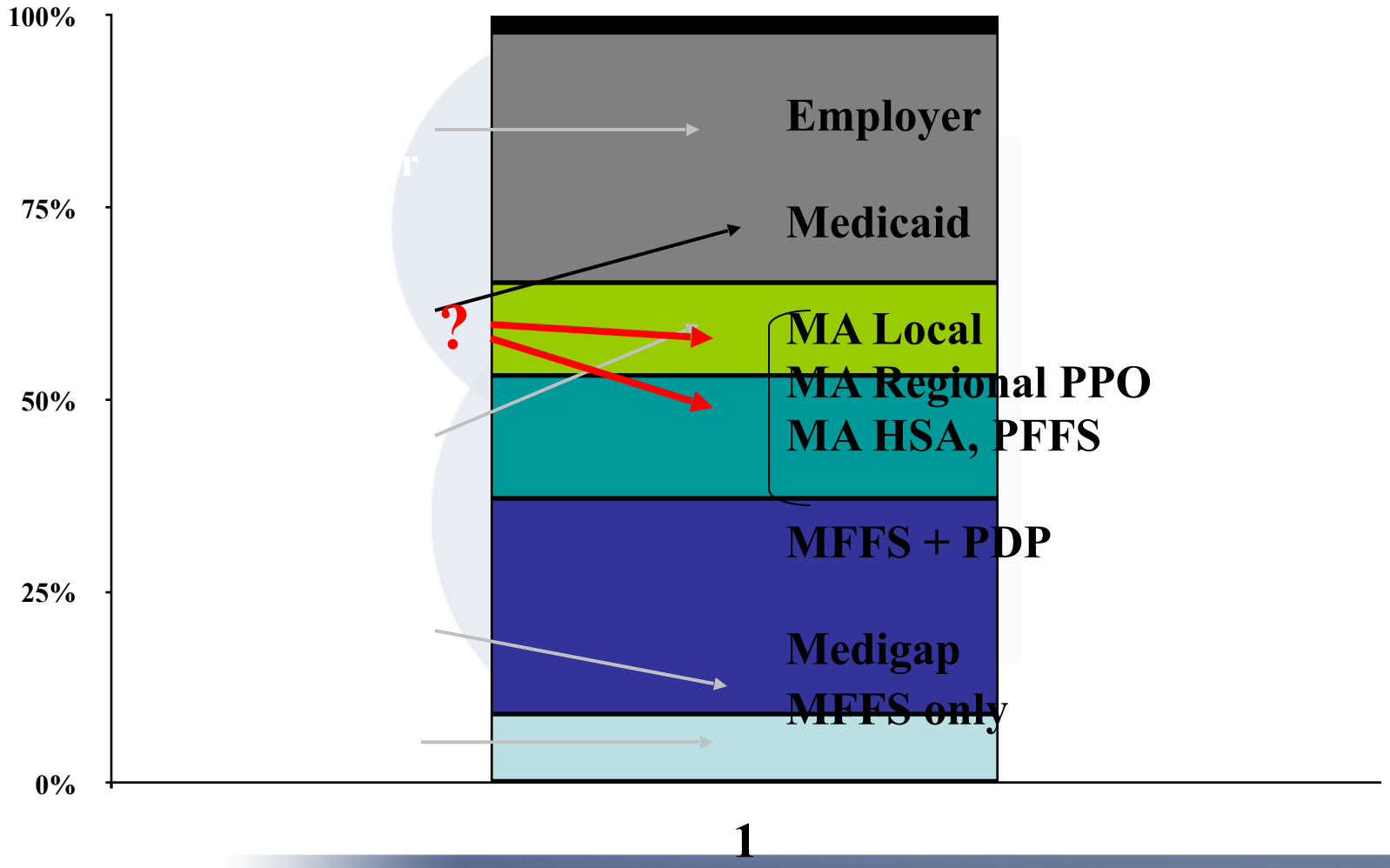
What will Medicare beneficiaries opt for as choices expand in future?



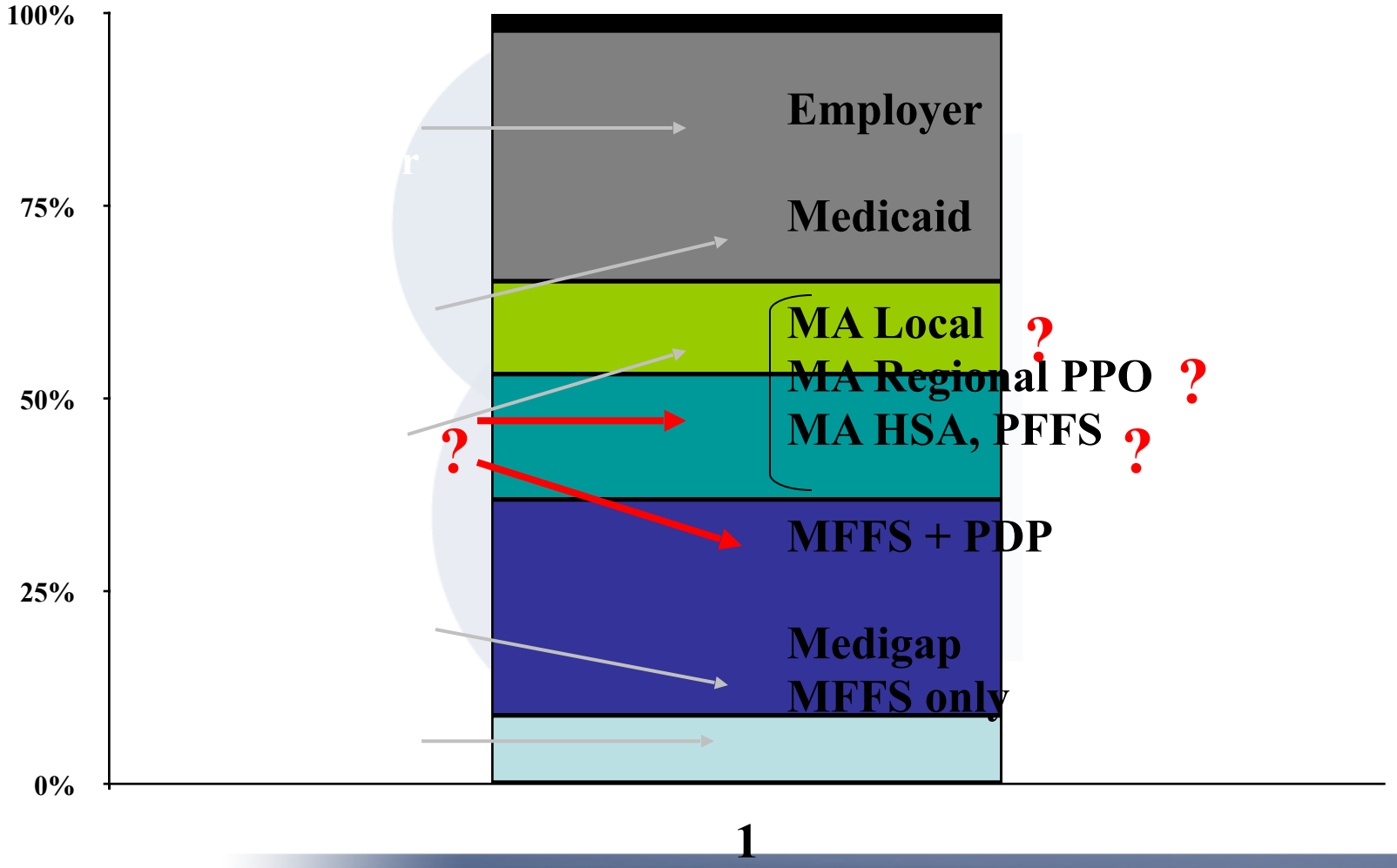
What will employers do – will they drop?



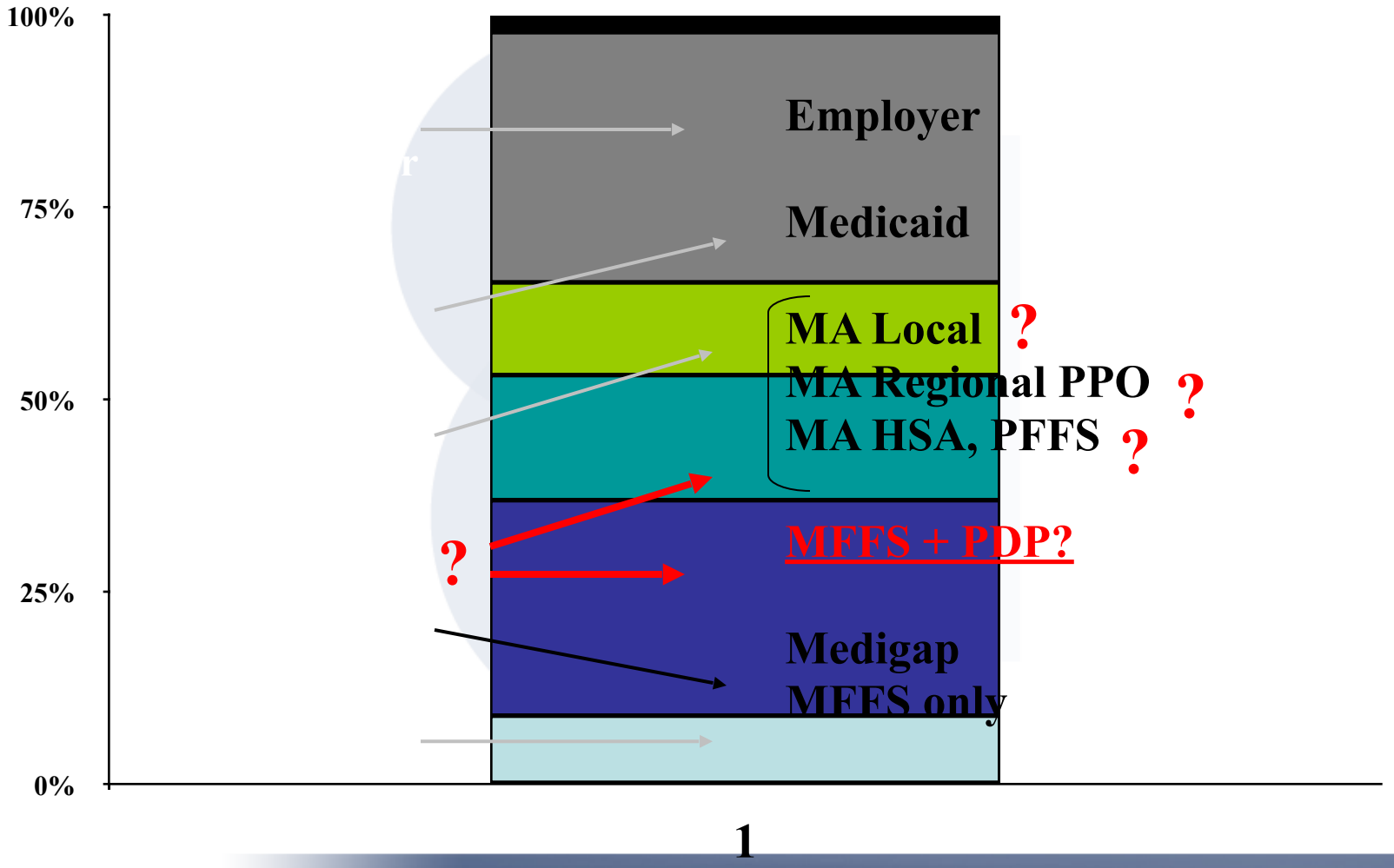
What happens in Medicaid – active and default?



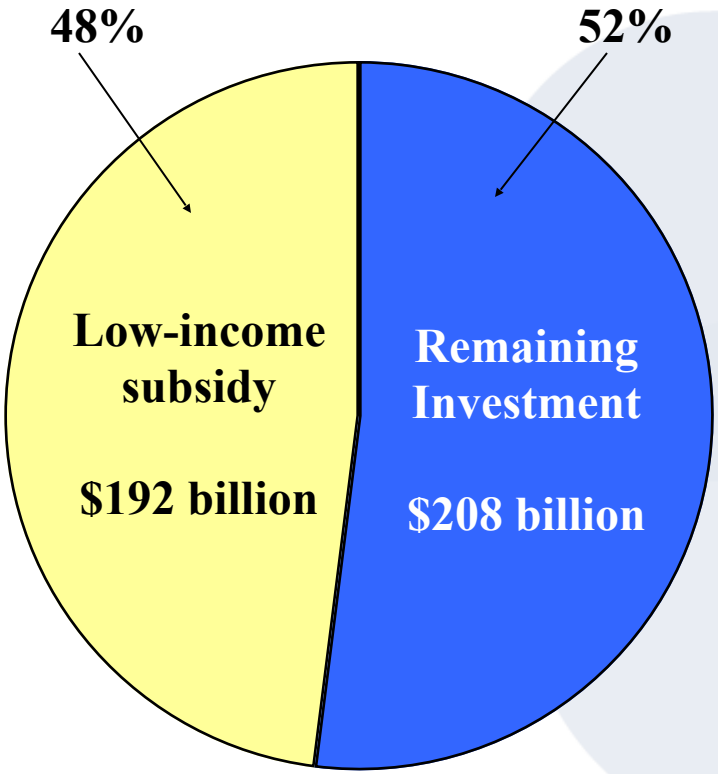
What will current MA beneficiaries do – and what type plan might they join?



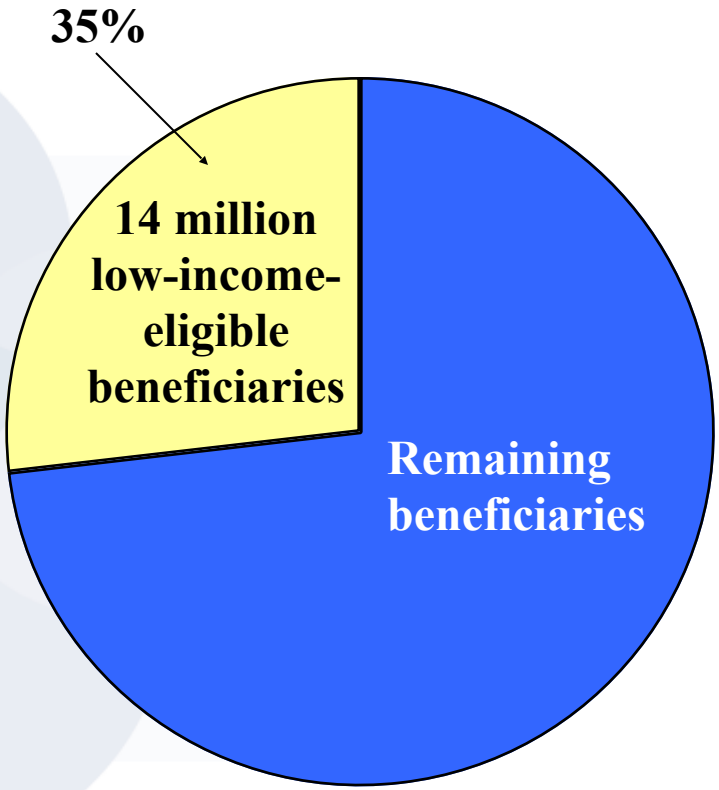
What will Medigap enrollees do?



Who will reach lower income individuals, given MMA's spending on low-income Rx drug subsidies?



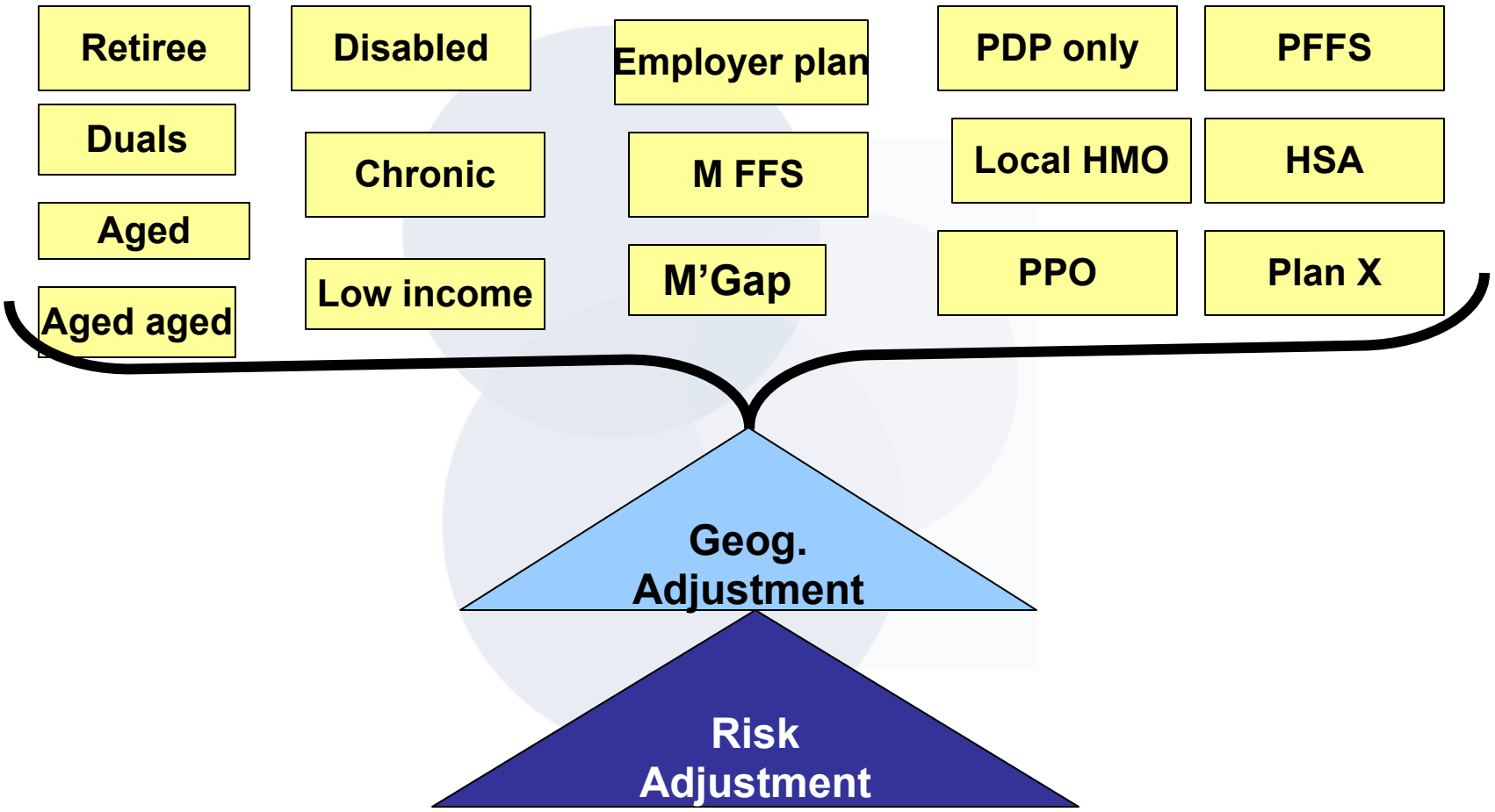
Total Federal Investment = $400 billion



Total number of beneficiaries, 2006 = 41 million

Congressional Budget Office

Increasing segmentation puts incredible pressure on already-stressed geographic and risk adjusters



Major difference, 2006 - Beneficiary must act

- Major difference in 2006, compared with 1997, is the new Rx drug benefit
- Beneficiaries have to sign up for something – either a PDP only plan or MA plan
- Doing nothing incurs a cost
- So there will be more movement – but where?

Summary – what will happen to MA

- What are funding levels – base and rate of change
- How accurate are payments/risk adjustment – or risk sharing – critical for sustainability?
- Where do ***Medigap*** enrollees (about 30%) go?
- Do Medigap carriers offer PPOs?
- How available and attractive are the ***PDP-only plans*** –that is crucial factor for the beneficiary decision of FFS v. MA

Another important question…

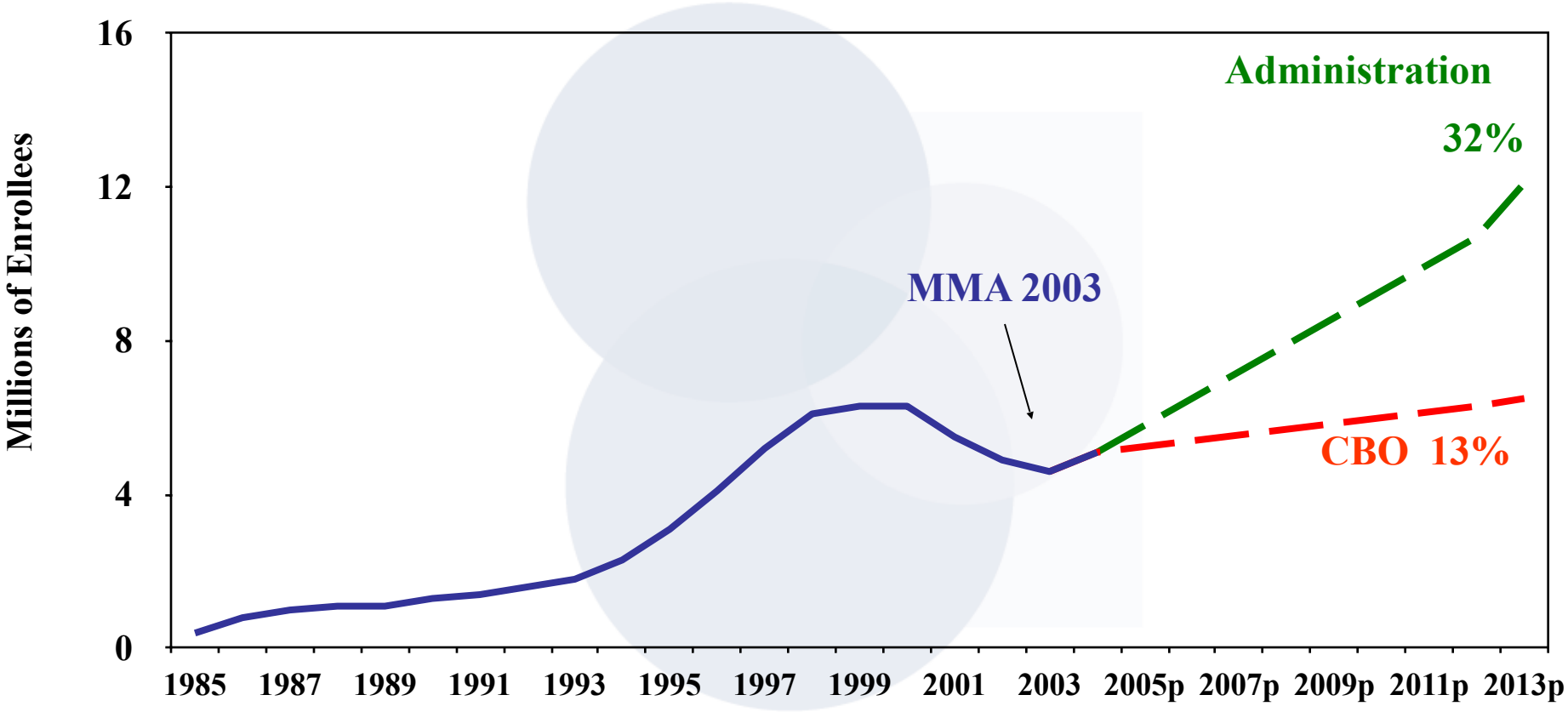
What happens within MA – is it dominated by:

- Regional PPO?
- Local MA?
- Health Savings Accounts?
- Private Fee For Service?

Is it worth it? Long term, how do MA plans demonstrate value?

- Transaction processers?
- Risk bearing insurers?
- Benefit redesigners?
- Organizers of care?

What will MA enrollment be? Don't know, but…



Congressional Budget Office Comparison of CBO and Administration Estimates of the Effect of H.R. 1 on Direct Spending February 2004

Thank you