Improving the Environment for Competition: More Efficient Purchasing in Traditional Medicare

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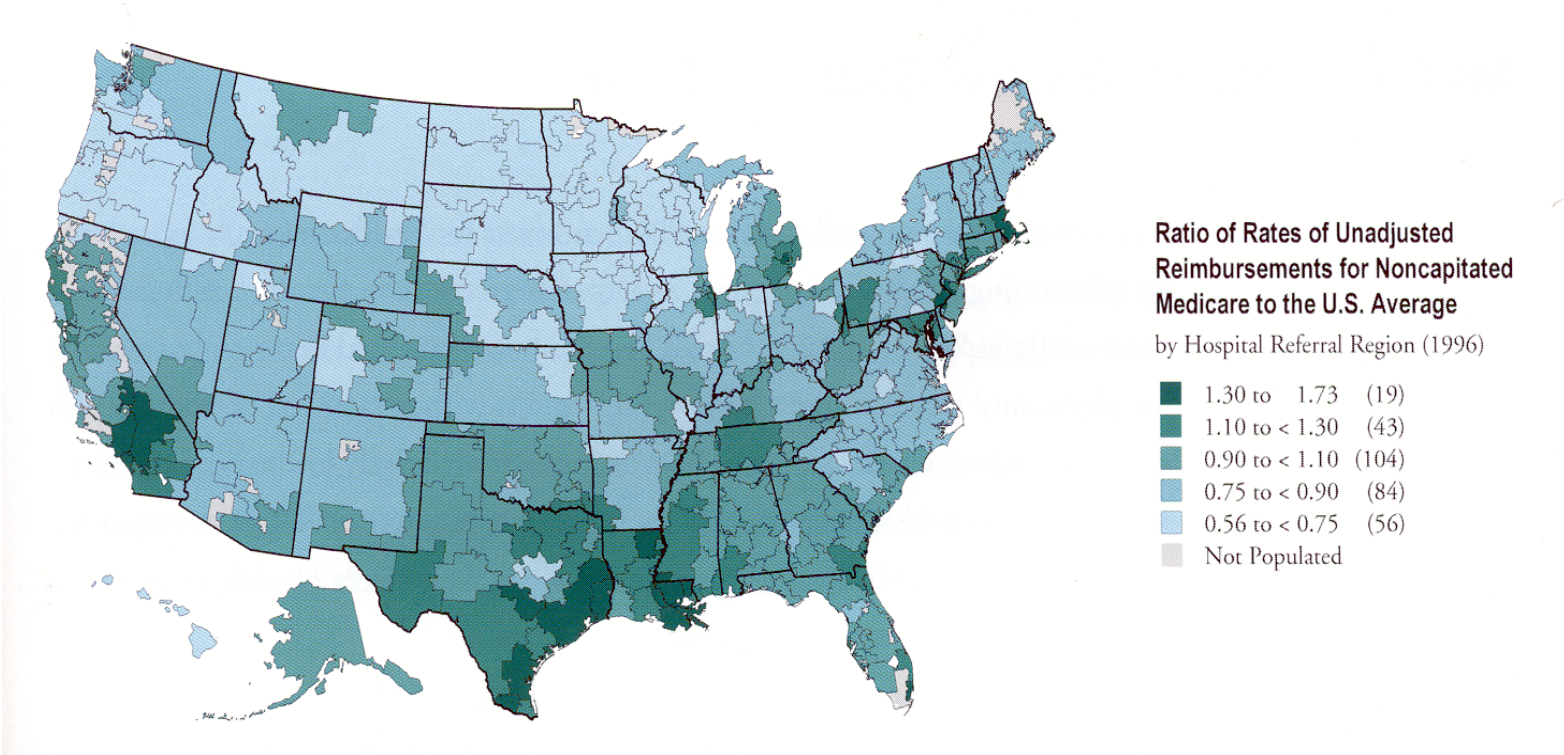
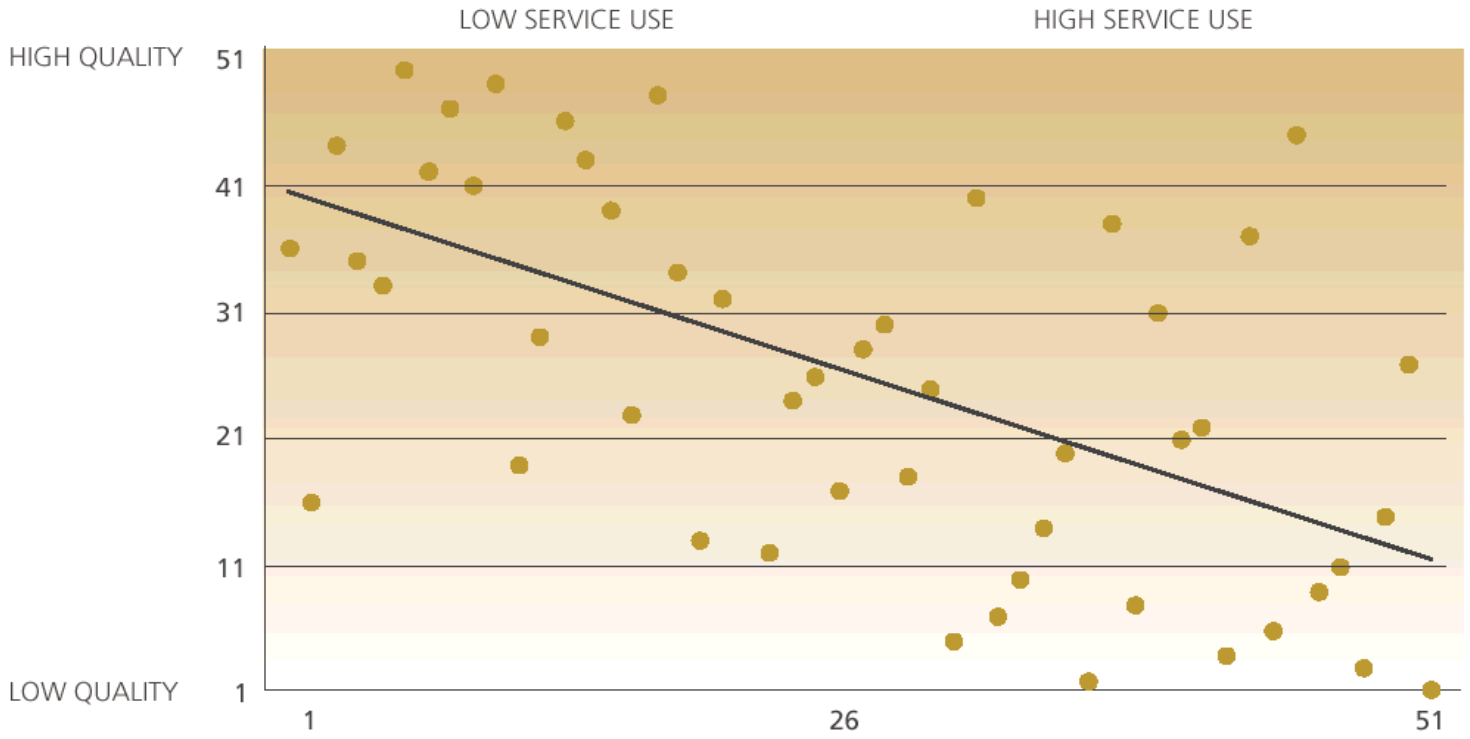
Threefold variation in unadjusted Medicare spending.



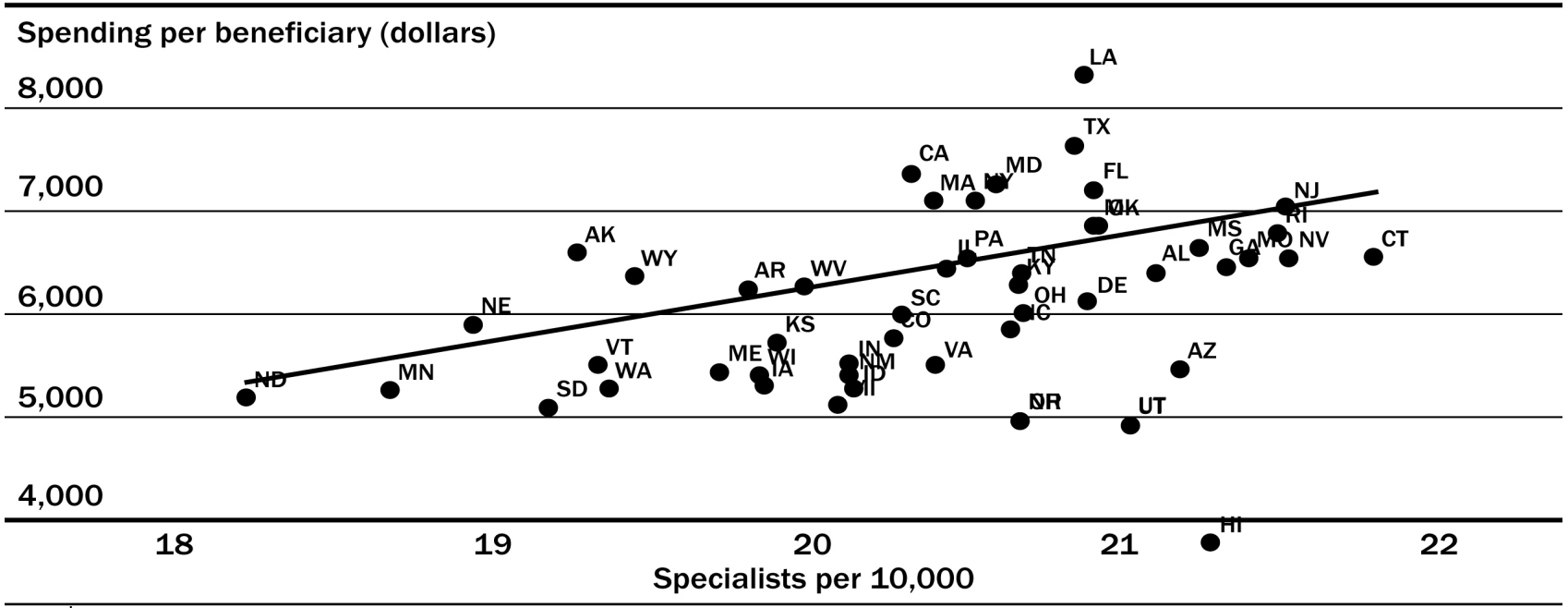
Source: Dartmouth Atlas of Health Care 1999

States with higher use do not rank higher on quality. If anything, they fare worse.



Source: MedPAC, 2003

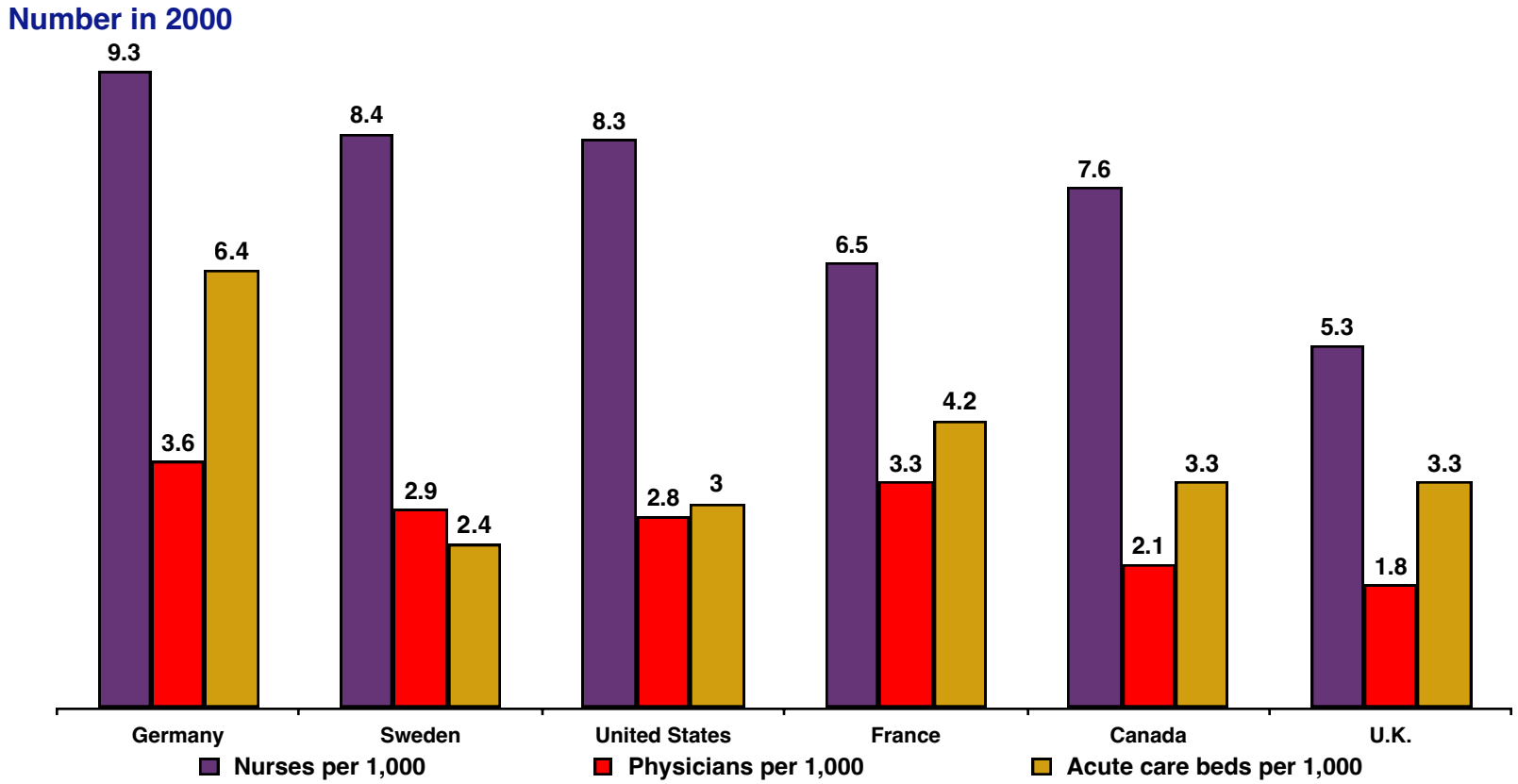
Relationship Between Provider Workforce and Medicare Spending:
Specialists per 10,000 and Spending per Beneficiary in 2000



Sources: Medicare claims data; and Area Resource File, 2003. Backer and Chandra *"Medicare Spending, The Physician Workforce, and Beneficiaries' Quality of Care"* Health Affairs 2004

Note: Total physicians held constant.

Health Care Provision: U.S. Versus Other Nations



Source: Organization for Economic Cooperation and Development (OECD) Health Data 2002.
Note: Data on the number of nurses and physicians for Sweden and the U.S. are from 1999. Data on the number of acute care beds in Canada are from 1999.

Traditional Medicare Needs a New Model

- Prescription Drug Debate
  - *"..Time to trade Medicare's 1965 model benefit package for one suited to the 21st Century…"*
- Balanced Budget Act 200? Debate
  - "..*Time to trade Medicare 1983 model payment methods for ones suited to the 21st Century…"*

Traditional Medicare's Payment Model

National fee schedules or payment systems:

- Payment for packages of services
- Based on average costs of providing service
- Limited adjustments, principally for casemix and local wage differences
- Adjusted annually across the board

Traditional Medicare's Payment Model

- Intent—reward and encourage efficiency
- Result---
  - Reward and encourage low cost regardless of cause
  - Reward supply of additional units
  - Ignore differences in
    - Quality of services
    - Value of services
    - Providers and markets affecting efficient price levels

Designing 21st Century Payment Methods: Understanding Differences Among Providers

Example of Hospitals

	Negative Medicare Margin (99-02)	Positive Medicare Margin (99-02)
Cost per Medicare discharge* (01)	$5,934	$4,792
Annual change in costs per discharge	5.1%	4.8%
Annual change in LOS (94-02)	-2.9%	-3.2%

*Standardized for differences in casemix and wages
Source: MedPAC

Designing 21st Century Payment Methods: Understanding Differences Among Providers

Example of Hospitals

	Negative Medicare Margin (99-02)	Positive Medicare Margin (99-02)
Occupancy rate (02) Subject Hospitals Hospitals within 15 miles	 46% 55%	 57% 59%
Medicare cost per discharge* (01) Subject Hospitals Hospitals within 15 miles	 $5,934 $5,654	 $4,792 $5,182

*Standardized for differences in casemix and wages
Source: MedPAC

Conclusion

- Being more discriminating is essential to becoming an efficient purchaser
- Recognizing quality, value, and market differences are critical priorities
- Traditional Medicare is important to successful competition