




MAKING HEALTH CARE BETTER

NASI 2014 Summer Academy

**Medicare Advantage and
Medicare Prescription Drug Coverage**
Structure and Financing

Howard Shapiro, PhD
Director of Public Policy
July 24, 2014

***Medicare Advantage
(Part C)***



2

Medicare Advantage – A Brief Overview

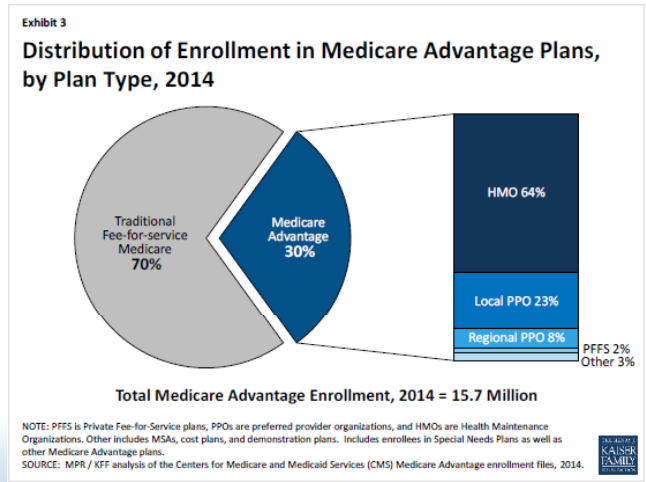
- The MA program allows Medicare beneficiaries the option to receive their benefits through private plans rather than the traditional fee-for-service (FFS) Medicare program.
- Medicare pays MA plans a monthly risk adjusted capitated payment (per enrollee) to provide all Part A and Part B benefits to the plans' enrollees. Some MA plans also include the Part D drug benefit. Hospice is not included in the MA benefit package.

Medicare Advantage (MA) – A Brief Overview

- MA plans may supplement benefits by reducing cost-sharing requirements or providing coverage of non-Medicare benefits. These additional benefits may be financed through a higher beneficiary premium or through plan savings.
- MA plans may limit enrollees' choices of provider more narrowly than FFS Medicare. However, MA plans have the flexibility to implement delivery system innovations to provide coordinated, quality care.

Medicare Advantage Enrollment

HMOs and local PPOs account for the majority of MA enrollment

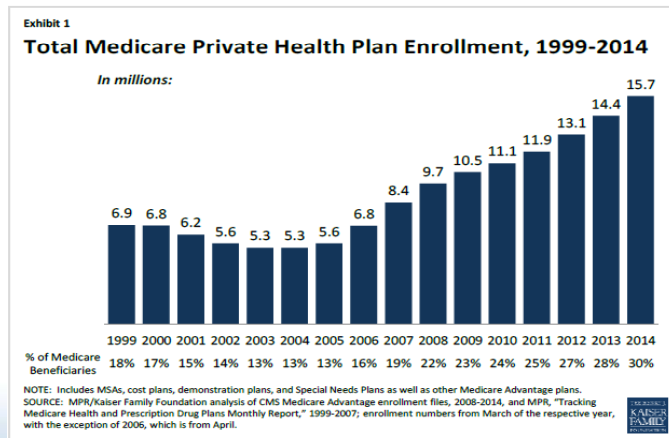


Source: Kaiser Family Foundation



Medicare Advantage Enrollment

The number of MA enrollees has nearly tripled since 2004, to 30% of all beneficiaries



Source: Kaiser Family Foundation



Medicare Advantage Financing

- Payments for the MA program are made in appropriate portions from the Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) trust funds. There is no separate trust fund for MA.
- For 2014, Medicare payments to MA plans are expected to total \$156 billion, accounting for close to 30% of all Medicare spending.
- Since 2006, payment to MA plans has been determined under a bidding and benchmark process. Payment is also risk adjusted based on enrollees' demographics and risk characteristics.



7

Medicare Advantage – Paying for Value

- MA plans are evaluated every year on measures of clinical quality, patient satisfaction, and customer service. Plans receive a star rating of 1 to 5 stars.
- The star ratings help enrollees compare options in their area through www.medicare.gov
- While the Affordable Care Act (ACA) made several changes that reduced overall payments to MA plans, it also implemented a system that rewards high quality plans that receive a star rating of 4 stars and above with quality incentive payments.



8

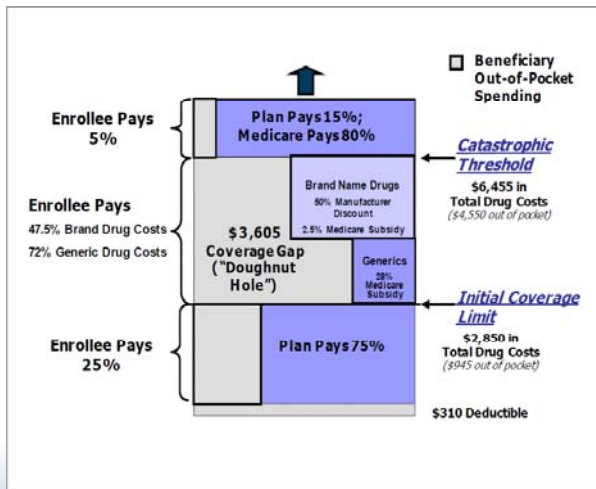
Medicare Part D Prescription Drug Benefit

Medicare Part D – A Brief Overview

- Medicare Part D provides a voluntary prescription drug benefit for all Medicare beneficiaries.
- Part D is offered through private stand-alone prescription drug plans (PDPs) and Medicare Advantage prescription drug (MA-PD) plans that cover all Medicare benefits including drugs.
- Beneficiaries with low incomes (less than 150% of federal poverty level) and modest assets (less than \$13,300 for individuals) are eligible for assistance with Part D plan premiums and cost-sharing.
- In 2014, beneficiaries in each state have a choice of more than two dozen stand-alone PDPs and multiple MA-PD plans.

Part D Plan Benefits and Premiums

Standard Medicare Prescription Drug Benefit for 2014



- Most plans offer actuarially equivalent benefits instead of the standard package, including alternatives such as reducing or eliminating the deductible, or using tiered cost-sharing with lower cost-sharing for generic drugs.
- The ACA phases out the coverage gap by 2020. Once the gap is eliminated, beneficiaries will pay 25% cost-sharing for all drugs until they reach OOP threshold.

Source: Congressional Research Service

Part D Enrollment

For 2013:

- 35.7 million beneficiaries enrolled in a Part D plan
 - About two-thirds enrolled in stand-alone PDPs
 - About one-third enrolled in MA-PD plans
- 3.2 million beneficiaries enrolled in prescription drug coverage through employer-sponsored retiree plans.
- Five firms (UnitedHealth, Humana, CVS Caremark, Express Scripts, and Aetna) enrolled 65% of all beneficiaries.

Part D Financing

- The Part D program is financed through a combination of federal general revenues (75%), beneficiary premiums (12%), and certain transfers made from the states (13%).
- Part D spending in 2014 is estimated to total \$58 billion, representing 11% of total Medicare spending.
- Payments to Part D plans are determined through a competitive bidding process. Plans are paid a risk-adjusted monthly per capita amount based on their bids during a given plan year.
- Plans are expected to negotiate prices for drugs but the federal government is prohibited from interfering in negotiations between drug manufacturers, pharmacies, and plans.

Questions/Discussion

Howard Shapiro, PhD
Director of Public Policy
Alliance of Community Health Plans
hshapiro@achp.org
202-785-2247