

Advising the Congress on Medicare issues

Benefit design: competitively-determined plan contributions

Julie Lee and Scott Harrison September 6, 2012

MECIPAC

Outline for today's presentation

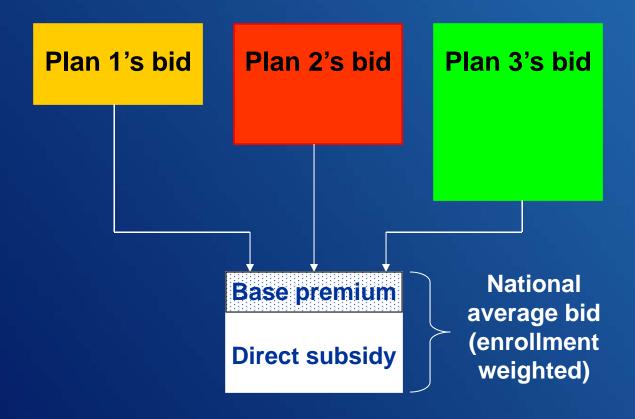
- Defining "competitively-determined plan contributions"
- Example in current Medicare: Part D
- Design issues
- Additional questions

Defining competitively-determined plan contributions (CPCs)

- Common principles
 - Federal contribution to buy Medicare coverage would be competitively determined
 - Individual premiums would vary depending on the beneficiary's choice of coverage and the level of the federal contribution



Medicare Part D illustrates a CPC approach





Plans' bids determine enrollee premiums under Part D

Plan 1's bid equals the direct subsidy Plan 2's bid equals the average bid

Plan 3's bid is more than average bid

Plan 3 premium exceeds base premium

National average bid

Base premium

Direct subsidy

(No premium)

Plan 2 premium equals base premium

Design issues

- Should the benefit package be standardized?
- How should the federal contribution be determined?
 - Based on plan bids vs. predetermined
 - National vs. local
 - Include FFS Medicare as a bid vs. not

Design issue: standardized benefit

Degree of standardization	Same services Same cost sharing	Same services Vary cost sharing	Actuarially equivalent package
Potential for risk selection	Low	Some	Maximum
Flexibility in plan design	None	Some	Maximum
Beneficiary perspective	Limited choice; Easy to compare plans	More choice; Not as easy to compare plans	Maximum choice; Difficult to compare plans
Example	Medigap	Part C (Medicare Advantage)	Part D*

^{*} In practice, Part D plans are subject to some limitations in plan design, such as requirements on the formulary.



Design issue: federal contribution amount

Based on plan bids vs. predetermined

Plan bids

- Contribution=(e.g., 87.5% of average bid)
- Reflect market conditions
- Less predictable program spending
- Less risk for beneficiaries

Predetermined

- Fixed dollar contribution=(e.g., \$8000) indexed to growth factor (e.g., GDP)
- Predictable program spending
- Beneficiaries at risk for increasing costs

Design issue: federal contribution amount

National vs. local

15	Average monthly	Federal contribution:	Beneficiary premium:
	cost for Part A &	87.5% of <u>national</u>	monthly cost – federal
	Part B benefit (bids)	cost (800*0.875=700)	contribution (bid-\$700)
Area 1	\$680	\$700	-\$20
Area 2	\$800	\$700	\$100
Area 3	\$920	\$700	\$220
	Average monthly	Federal contribution:	Beneficiary premium:
	Average monthly cost for Part A &	Federal contribution: 87.5% of <u>local</u> cost	Beneficiary premium: monthly cost – federal
Area 1	cost for Part A &		monthly cost – federal
Area 1 Area 2	cost for Part A & Part B benefit (bids)	87.5% of <u>local</u> cost	monthly cost – federal contribution (bid*0.125)

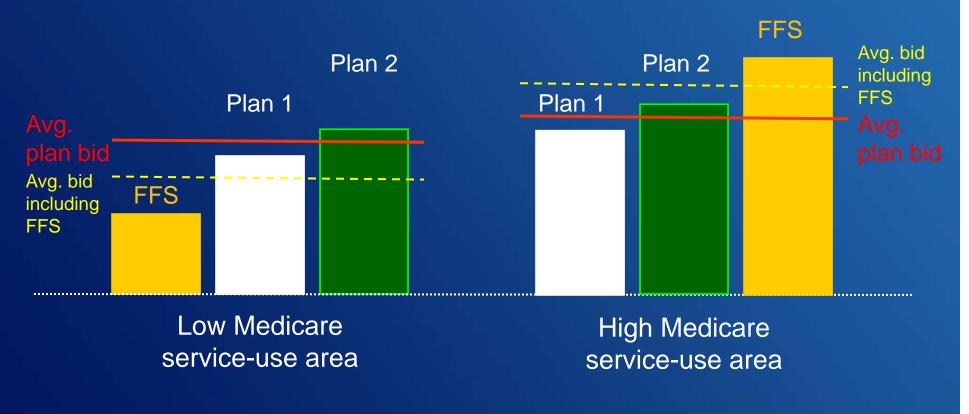
Note: Illustration assumes a national average benefit cost (bid) of \$800 per month.

MECPAC

Area 3

Design issue: federal contribution amount

Include FFS Medicare as a bid vs. not



Implications for beneficiaries and plans

- Beneficiaries would pay different amounts for FFS Medicare across areas
- Plan participation and availability would vary across areas



Additional questions

- What is the role of FFS Medicare?
- What provision should be made to ensure access for low-income beneficiaries?



Role of FFS Medicare

- Beneficiary can have FFS as an option
- FFS can be included as a bid in contribution calculation
- Medicare payment rates can exert downward pressure on plan bids



Low-income beneficiaries

- Eligibility
- Subsidy amount
- Plan assignment and beneficiary opt-out
- Medicare and Medicaid coordination of benefits for dual eligibles
- State obligation to pay beneficiary premiums and cost sharing
 - New premium and cost-sharing levels will result in changes across states from current expenditures

Next steps

- Effects of FFS Medicare on private plan bids
- Importance and adequacy of risk adjustment
- Empirical analysis of design elements
- Issues regarding low-income beneficiaries

