

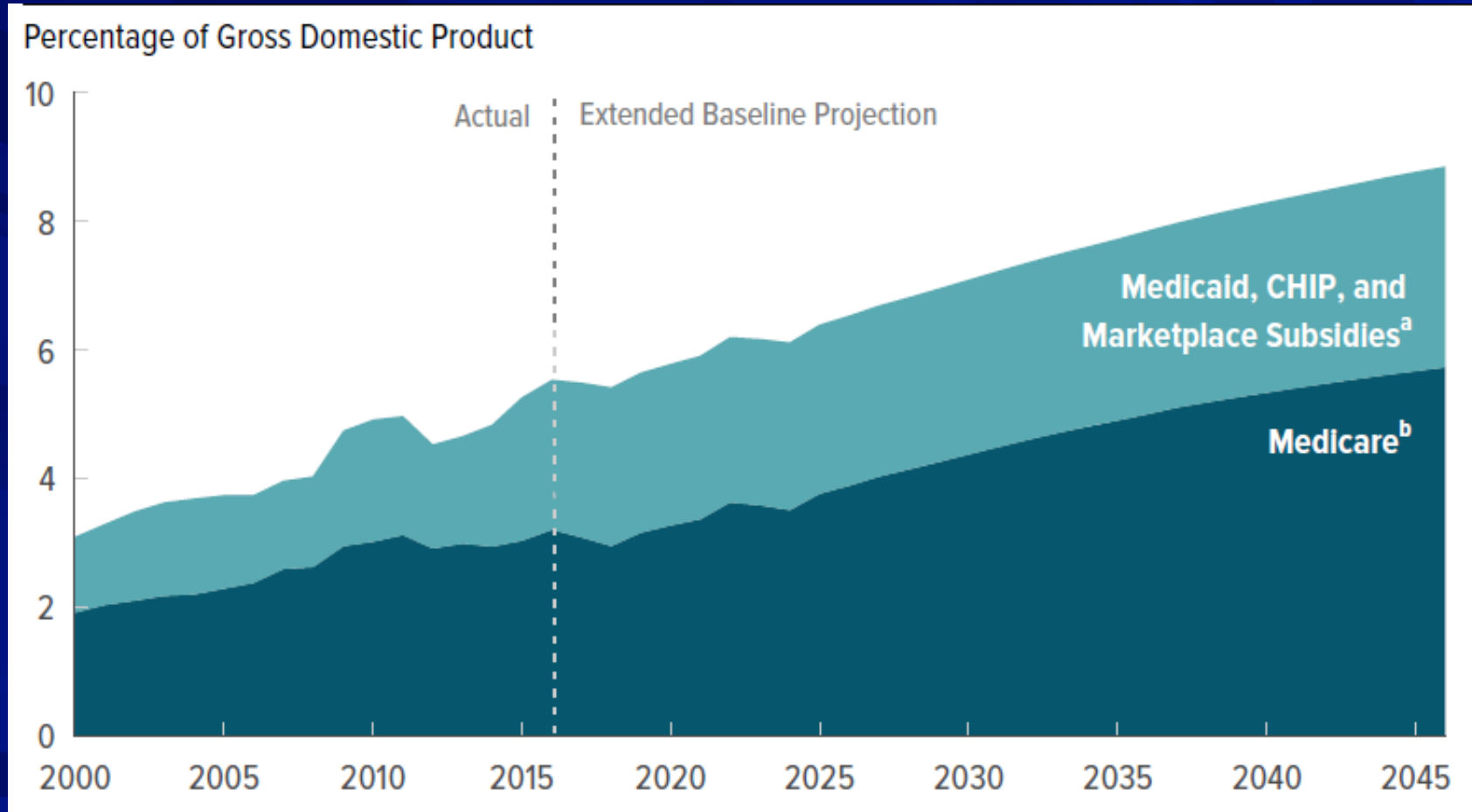
Future of Medicare Advantage

Michael Chernew

Objectives of Medicare Advantage

- Increase choice?
- Improve quality of care?
- Support better benefits?
- Save \$ for Medicare?

Federal Spending on Health as % of GDP:



Source: Congressional Budget Office. The 2016 Long-Term Budget Outlook.
<https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51580-LTBO.pdf>

Medicare's Challenge

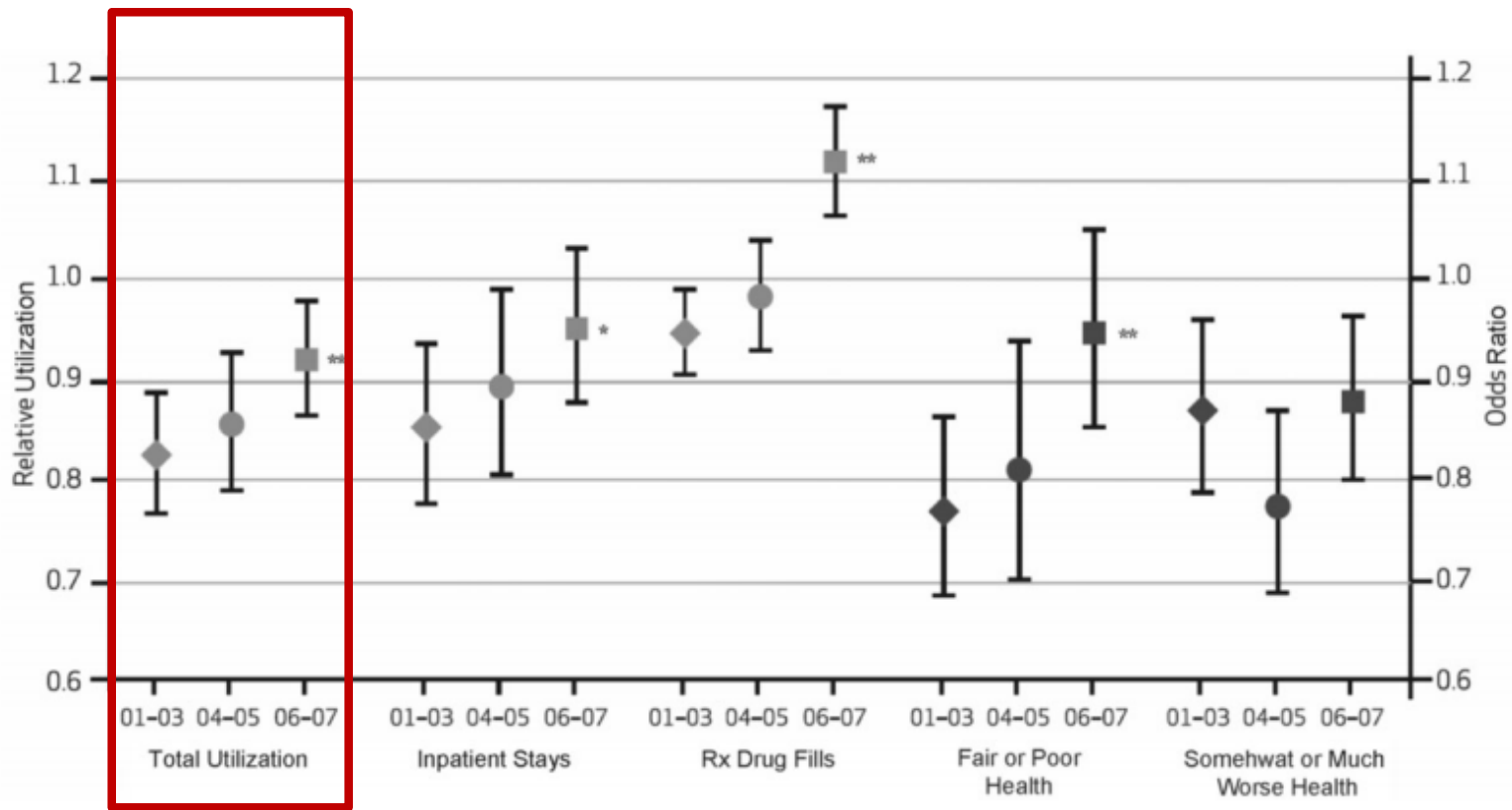
Excess spending growth per beneficiary (percentage points)	Medicare share of GDP in 2035 (%)
2	8.0
1	6.6
0.5	6.0
0	5.4

Share in 2015 was 3.6 percent. To remain at 3.6 percent of GDP in 2035, real demographically-adjusted Medicare per beneficiary spending needs to grow at a rate of 2 percentage points below GDP. Faster GDP growth would imply slightly lower Medicare shares for any amount of excess spending growth.

Sources: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary, National Health Statistics Group; and US Department of Commerce, Bureau of Economic Analysis and Bureau of the Census.

MA has Lower Utilization

Figure 6. Differences in Utilization and Self-Reported Health Between All MA and All TM Enrollees, 2001-2003, 2004-2005, and 2006-2007



But MA Benchmarks* are above FFS

MA Benchmark Relative to FFS Spending



*Includes quality bonuses

Issues

- Premium Support

- Interdependence

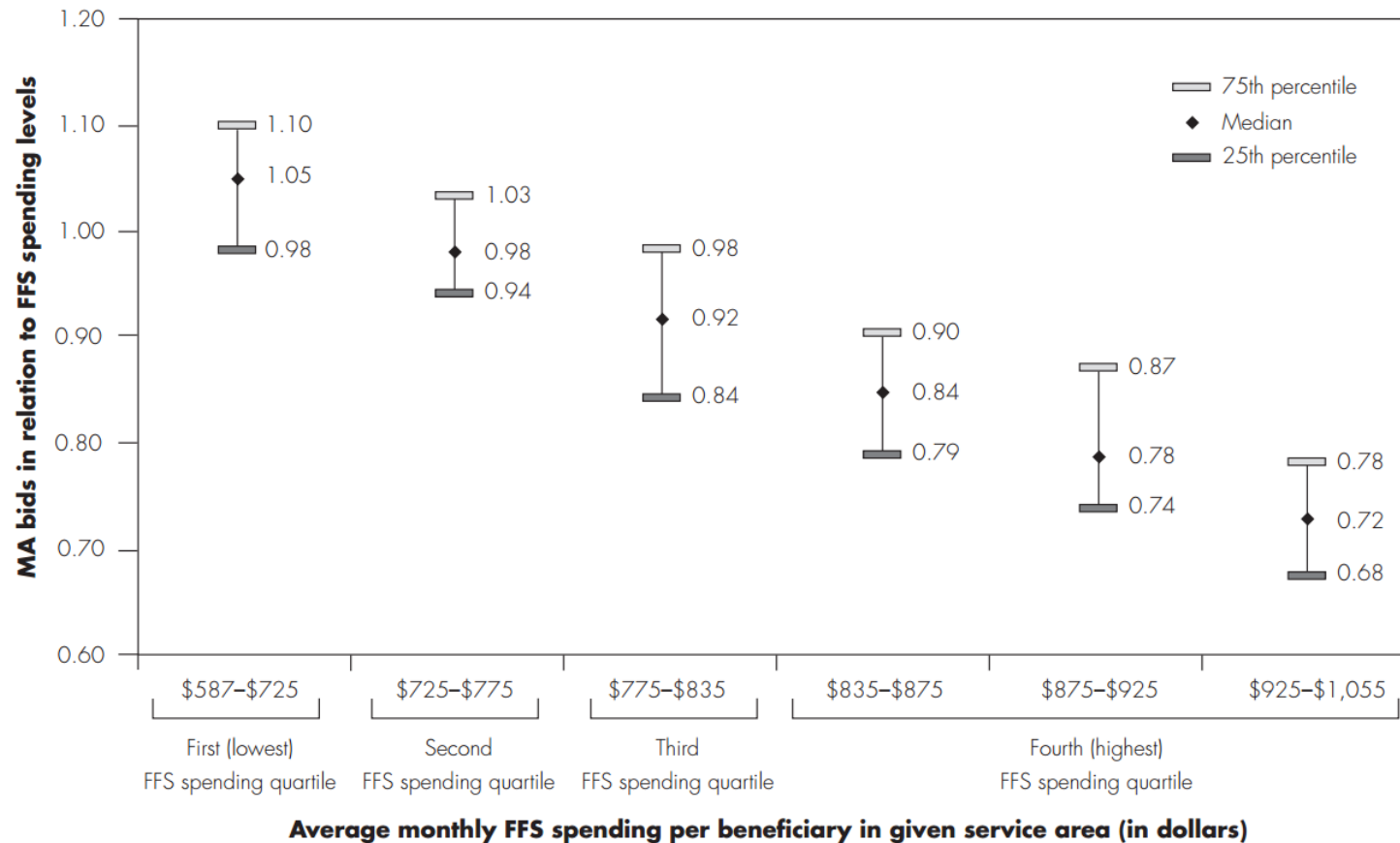
Premium Support

- Provide fixed government payment for coverage
 - How is payment set
 - Geographically
 - How is TM treated
 - How updated
 - How competitive is the market
- \$1 increase in benchmark
 - \$0.53 increase in bids*

Geographic Variation

FIGURE 13-2

Medicare Advantage bids in relation to FFS spending levels, 2017



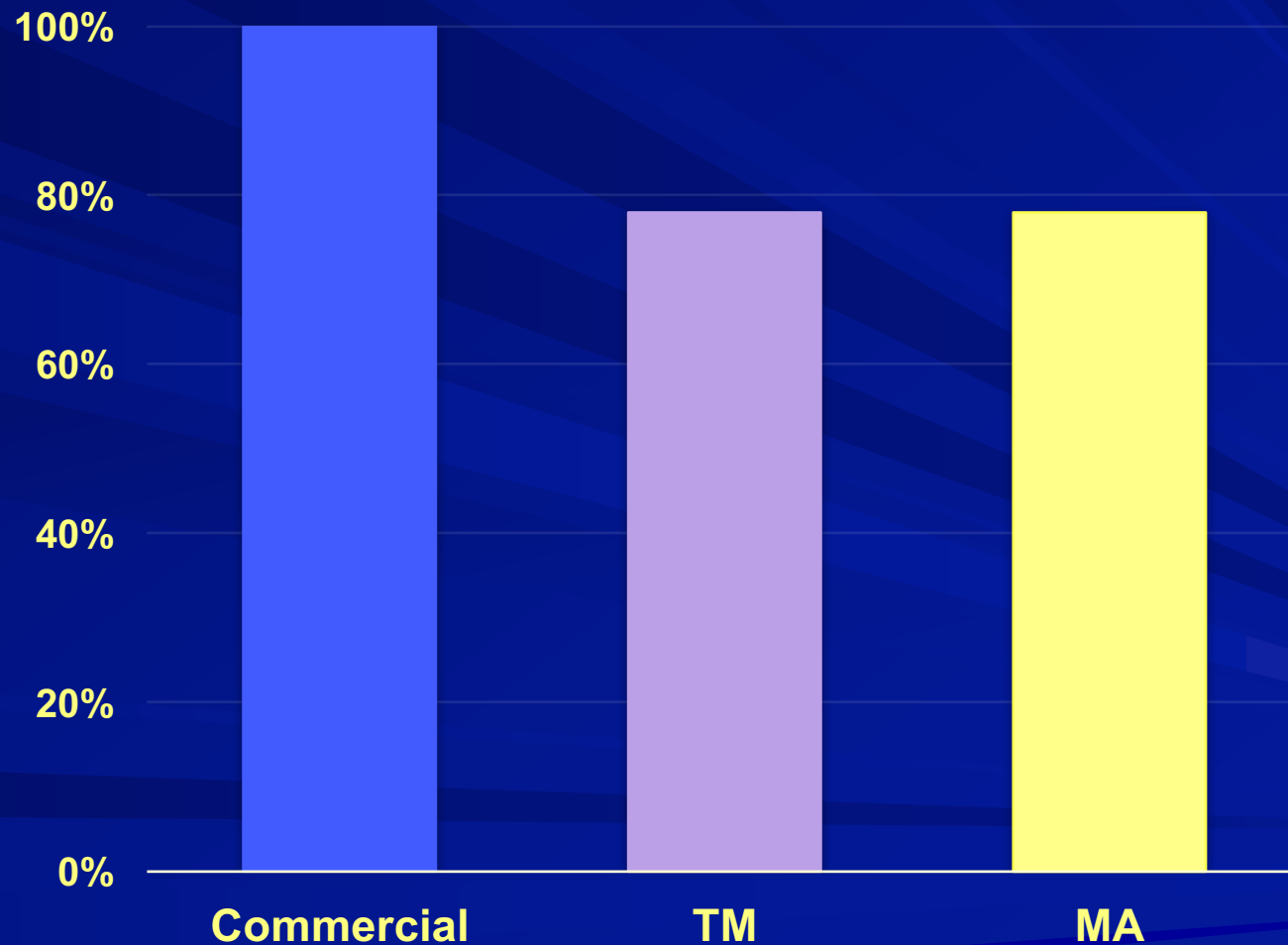
Note: FFS (fee-for-service), MA (Medicare Advantage). Excludes employer group plans, special needs plans, and plans in the territories.

Source: MedPAC analysis of MA bid and FFS expenditure data from CMS.

Interdependence

- MA as currently structured needs FFS
 - Benchmarks
 - Prices for care
 - Risk adjustment
 - Spillovers

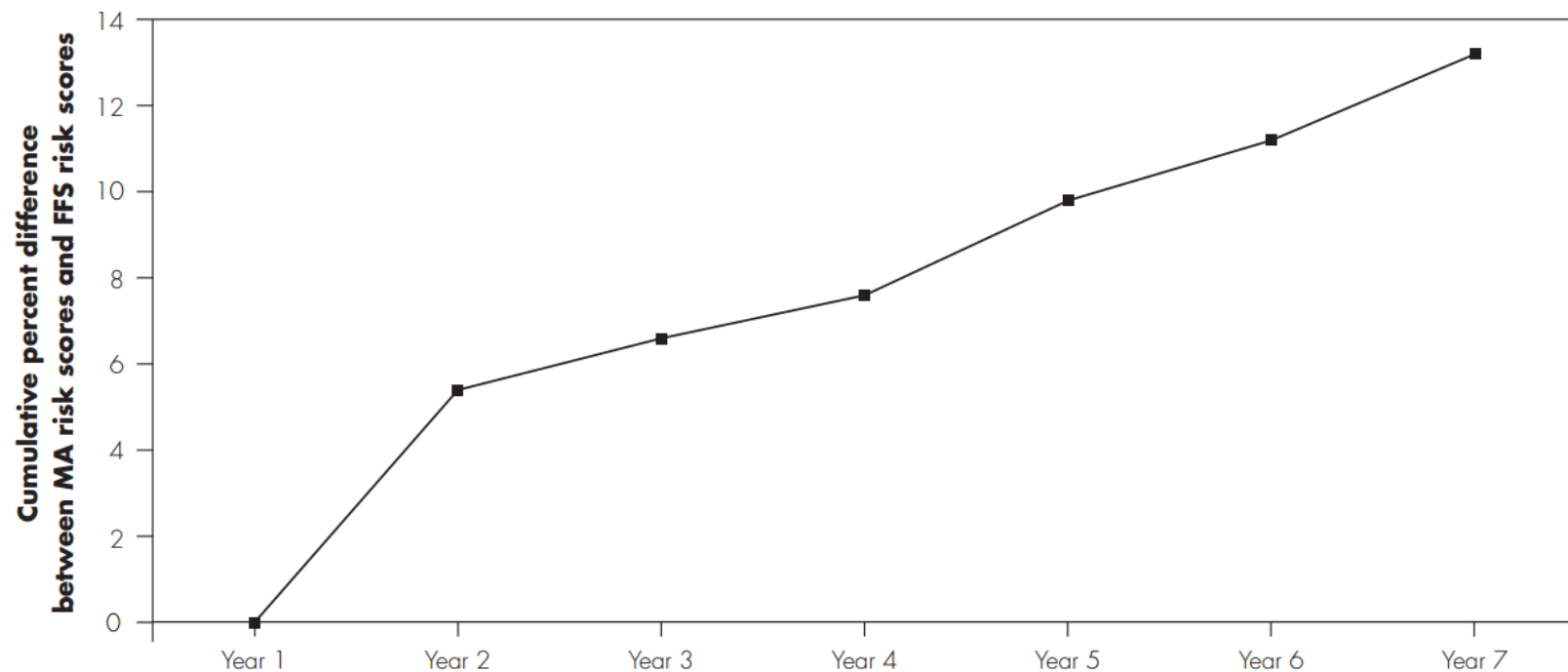
Prices are Similar in TM and MA. Both lower than commercial



Risk Scores

**FIGURE
13-4**

Average MA risk scores grew fastest relative to average FFS risk scores in the first cohort year, for enrollment cohorts ending in 2013



Note: MA (Medicare Advantage), FFS (fee-for-service). Analysis includes six MA and FFS cohort pairs ending in 2013 and starting in 2007 through 2012.

Source: MedPAC analysis of CMS enrollment and risk score files.

Source: MedPAC. 2017. Report to the Congress: Medicare Payment Policy.

Summary

- MA can lower spending and improve quality
 - In many but not all markets
- Medicare does not necessarily capture the savings
- Policy must recognize that TM and MA are interdependent

END