

# **Medicare Legislation: Overview and Implications**

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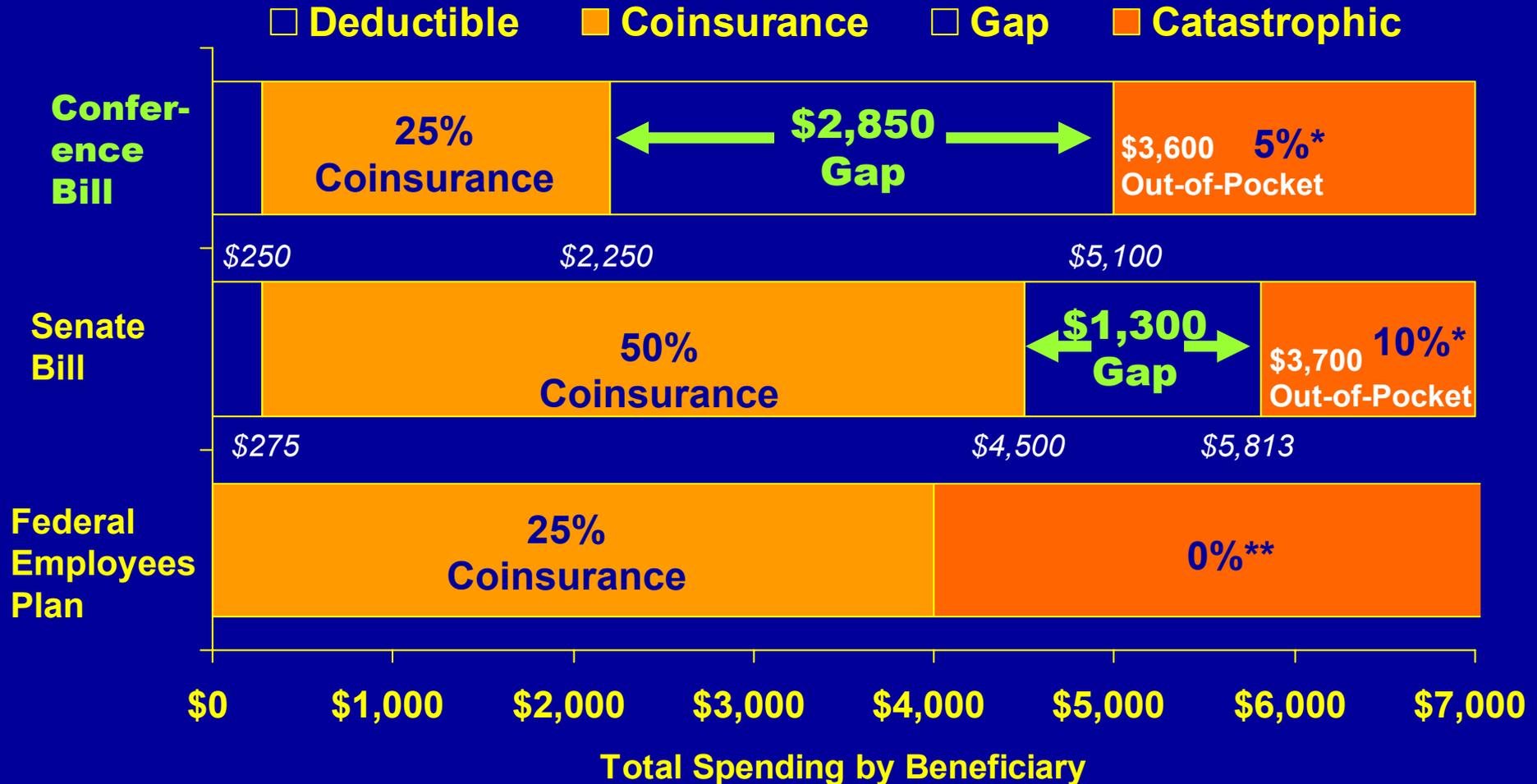
**November 21, 2003**

# **ELEMENTS OF THE CONFERENCE AGREEMENT**

- **Prescription Drug Benefit**
- **Prescription Drug Delivery System**
- **“Competition” in Medicare**
- **Beyond Medicare**

# Prescription Drug Benefit

## Conference Bill Has Large Gap



\*For seniors with retiree health coverage that limits cost sharing to 20%, \$3,600 is reached at \$18,000 in spending

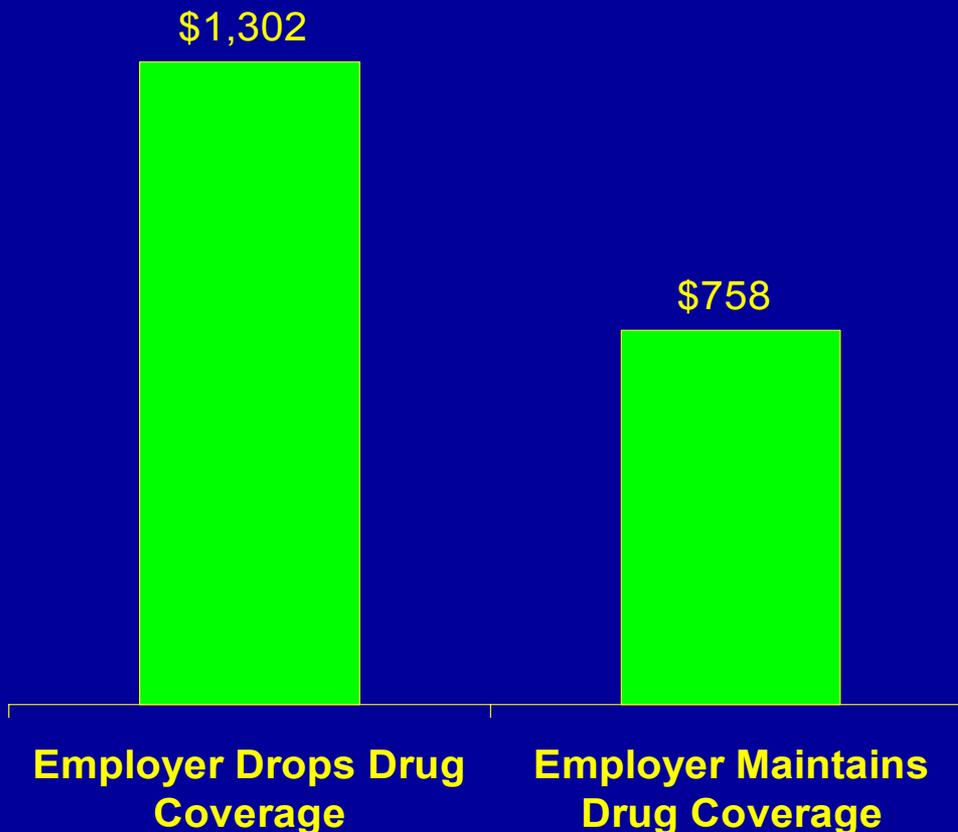
\*\* Federal Employees' BCBS option has a \$4,000 stop-loss for all covered services, including prescription drugs

# Penalty For Trying to Fill The Gap

## Eligibility for Medicare Catastrophic Benefit

## Reduced For Those With Retiree Coverage, Medigap

### Average Medicare Subsidy, 2006

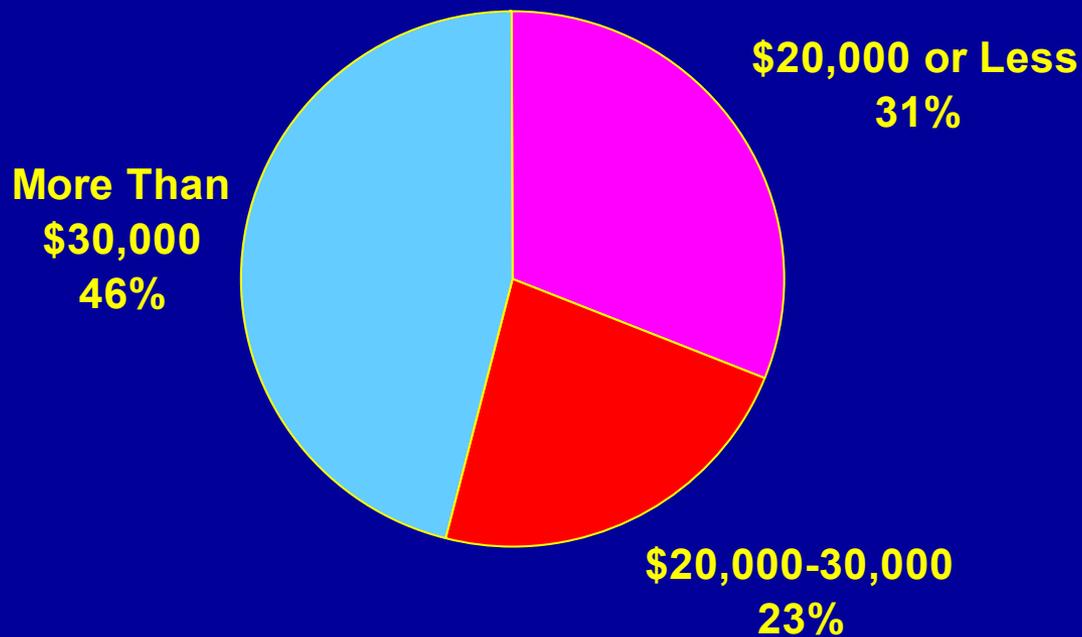


- Medicare subsidy 35% lower if employers maintain coverage
- About 2.7 million seniors who have retiree coverage today could lose it under both House and Senate plans
- Seniors losing retiree coverage could pay significantly more in cost sharing out-of-pocket

# 2.7 Million Seniors Could Lose Retiree Health Coverage

## Over Half Of Seniors With Retiree Drug Coverage Have Low Income

### Income Distribution of Medicare Beneficiaries with Drug Coverage Through Employer Plans, 1999



# Medicare Low-Income Drug Benefit

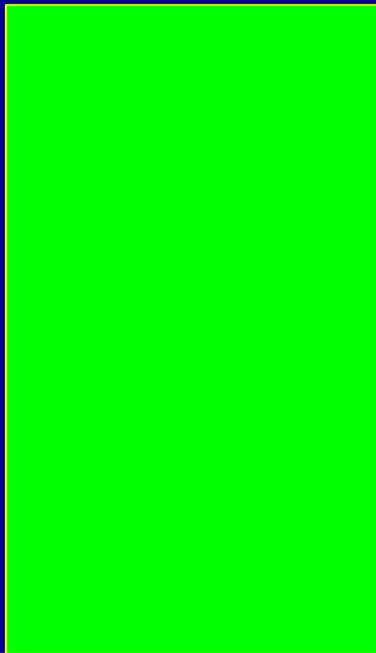
Medicare assumes responsibility for additional coverage for low-income beneficiaries

<u>Dual Eligibles</u> <u>&lt; 100% Poverty</u>	<u>&lt;135% Poverty</u>	<u>135-150% Poverty</u>
<p><u>Singles: Up to:</u> \$8,980 in income \$6,000 in assets</p> <p><u>Couples: Up to:</u> \$12,120 in income \$9,000 in assets</p>	<p><u>Singles: Up to:</u> \$12,120 in income \$6,000 in assets</p> <p><u>Couples: Up to:</u> \$16,360 in income \$9,000 in assets</p>	<p><u>Singles: Up to:</u> \$13,470 in income \$10,000 in assets</p> <p><u>Couples: Up to:</u> \$18,180 in income \$20,000 in assets</p>
<p>\$1-3 co-pays for private insurers' preferred drugs up to catastrophic limit</p> <p>No premium</p>	<p>\$2-5 co-pays for private insurers' preferred drugs up to catastrophic limit</p> <p>No premium</p>	<p>\$50 deductible 15% co-pays 5% coinsurance after catastrophic limit</p> <p>Sliding scale premium <sup>6</sup></p>

# Nearly One-Third Fewer Low-Income Medicare Beneficiaries Receive Extra Assistance Under Conference Bill

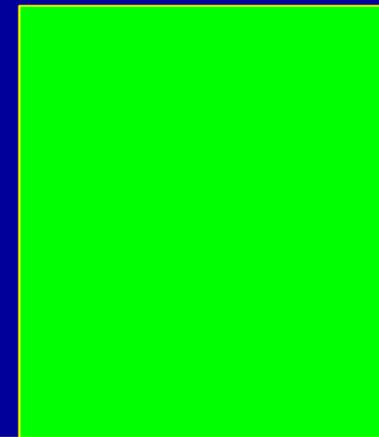
Income Limit Lowered, Assets Test Increased  
Compared to Senate Bill

**15 Million**



**Senate Bill**

**10 Million**



**Conference Bill**

# States & Medicaid Drug Policy

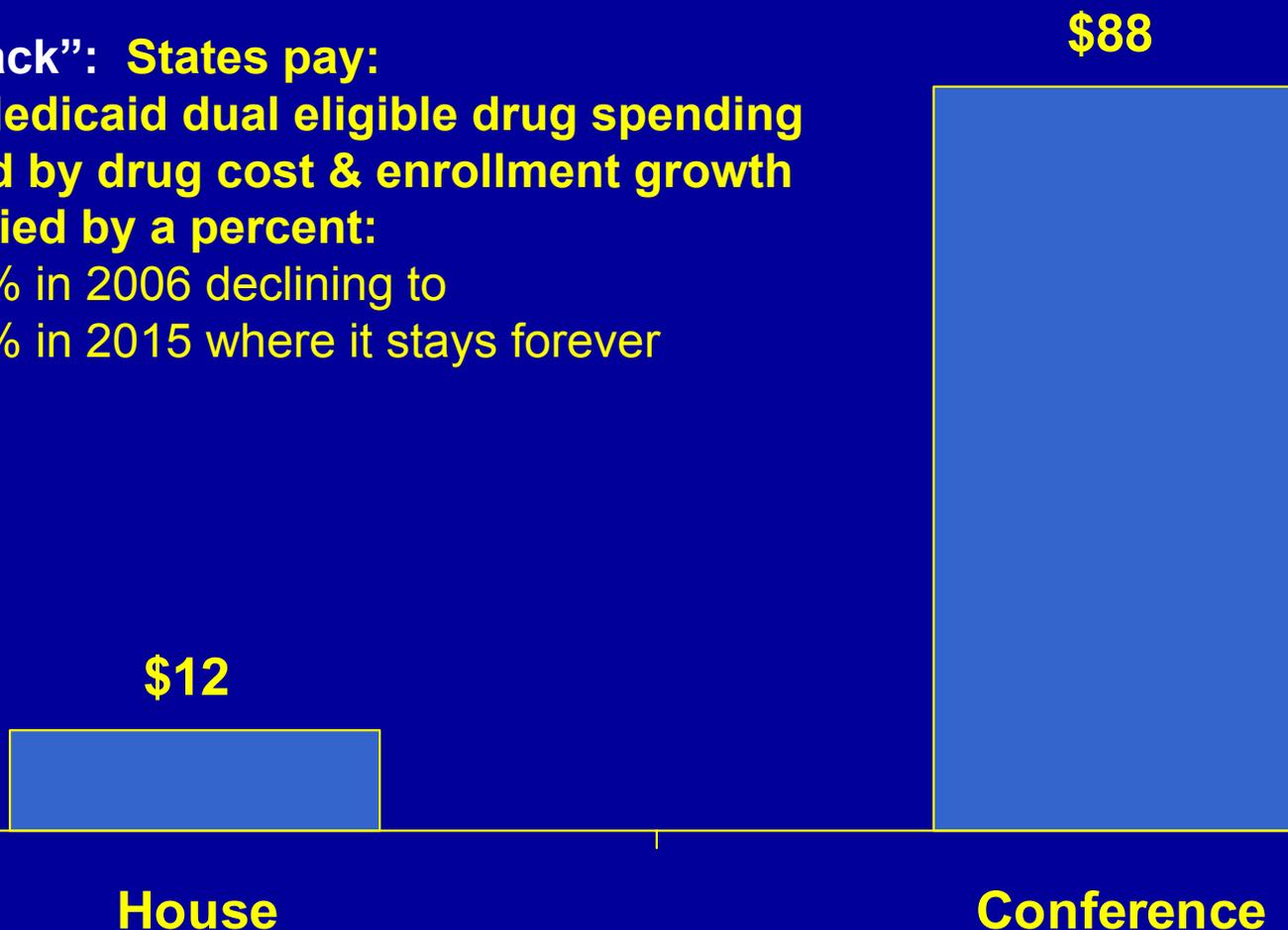
- **Medicare pays for primary drug coverage and extra premium and cost sharing assistance for low-income people including the dual eligible or QMB/SLMB eligibles**
- **No Federal Medicaid coverage for Medicaid-Medicare dual eligible beneficiaries for:**
  - Co-pays for preferred drugs (e.g., \$1-3 or \$2-5 copays)
  - Co-pays for non-preferred drugs – which could be 100% of cost – reducing access relative to current coverage
- **States pay Medicare “claw-back” or maintenance of effort**
  - Begins at 90% of base year costs grown by drug cost growth
  - Phases down to 75% of projected drug spending in 2015; stays at 75% permanently
- **State COST in early years, small savings later**

# Required State Payments to Support the Medicare Drug Benefit

(Dollars in billions, FY 2006-13)

“Clawback”: States pay:

- 2002 Medicaid dual eligible drug spending
- Inflated by drug cost & enrollment growth
- Multiplied by a percent:
  - 90% in 2006 declining to
  - 75% in 2015 where it stays forever



House

Conference

# **Prescription Drug Delivery System**

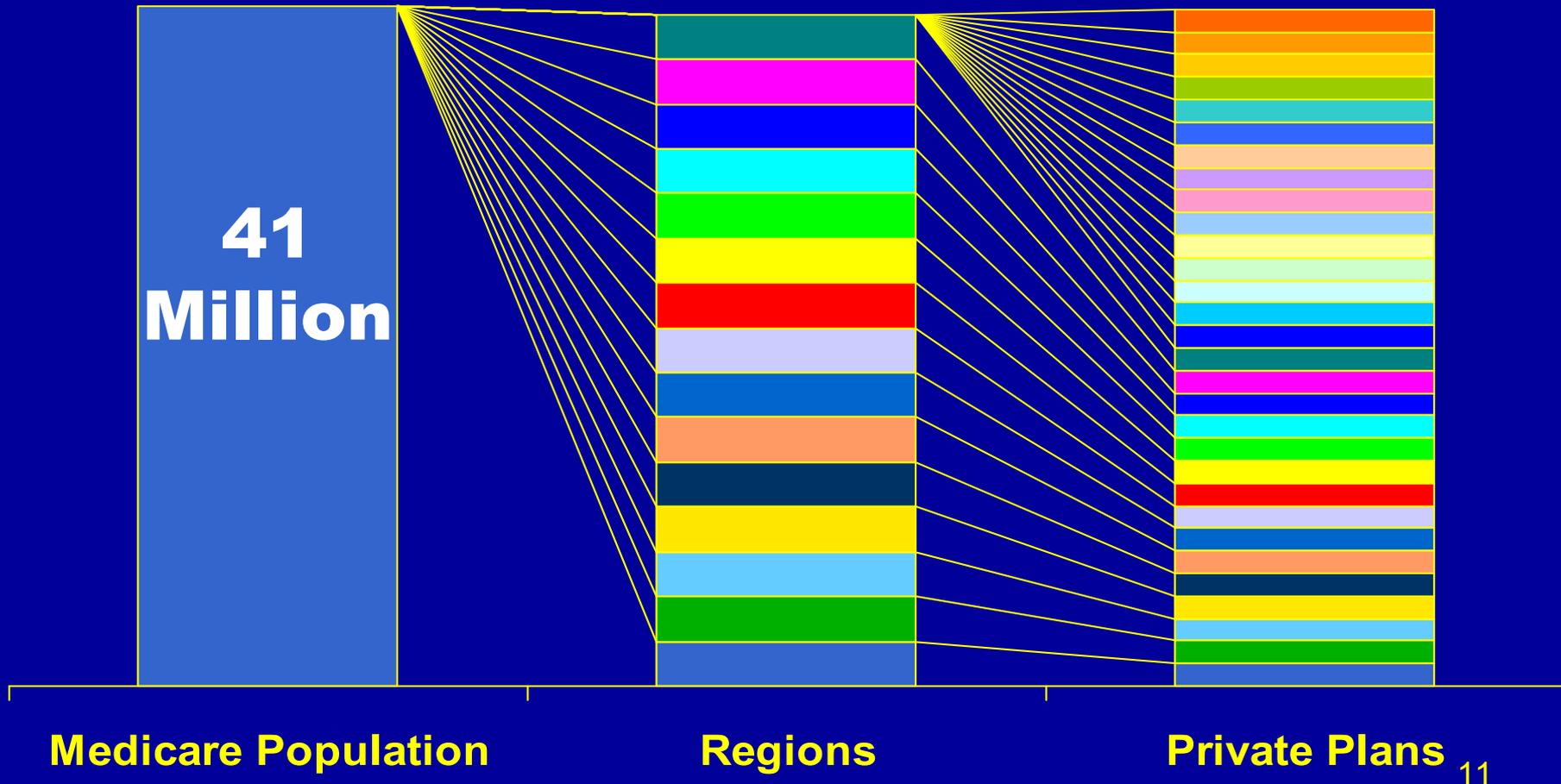
## **Administered by Private Insurers**

- **Stand-alone prescription drug insurers would offer coverage to traditional Medicare enrollees**
- **Insurers would determine:**
  - Premiums
  - Coinsurance / size of gap
  - Which drugs are on the formulary
- **Medicare would only provide a drug benefit if no private plans go to an area**
  - Beneficiaries are guaranteed only one insurer-defined drug plan in regions with HMOs or PPOS

# Conference Agreement Fragments

## Medicare's Purchasing Pool

41 Million Beneficiaries Divided into  
15 Regions into At Least 2 Plans



Note: Hypothetical: There could be a larger number of regions and plans in each region

# How Competitive Will The Drug Delivery System Be?

## Rules for Perfect Competition

- **Same product: No**
  - Different, private-insurer determined benefits
  - Private HMOs and PPOs can compete on other benefits
- **Many buyers and sellers: No**
  - No private drug-only insurers exist today
  - Few private plans likely come to rural America
  - Monopoly allowed: 1 stand-alone drug insurer can be the only option for enrollees in traditional Medicare if a PPO or HMO is in the area
- **Ability to switch products: No**
  - Limited: beneficiaries can only switch annually, insurers can change drugs on the formulary during the year
- **Little non-price competition: No**
  - Decision made not knowing drugs on formulary, cost sharing for them
  - HMOs and PPOs get paid at least 25% more than traditional Medicare and can use some of that funding to improve drug benefit, market, etc.

# Informed Choice of Prescription Drug Plans?

<b>What They Will Know</b>	<b>What They Will NOT Know Until At / After Enrollment</b>
<b>Premium for drug coverage</b>	<b>What drugs are on the formulary</b>
<b>General cost sharing</b>	<b>Cost sharing for each covered drugs</b>
	<b>Note: Formulary can change during the year; changes posted on the internet</b>

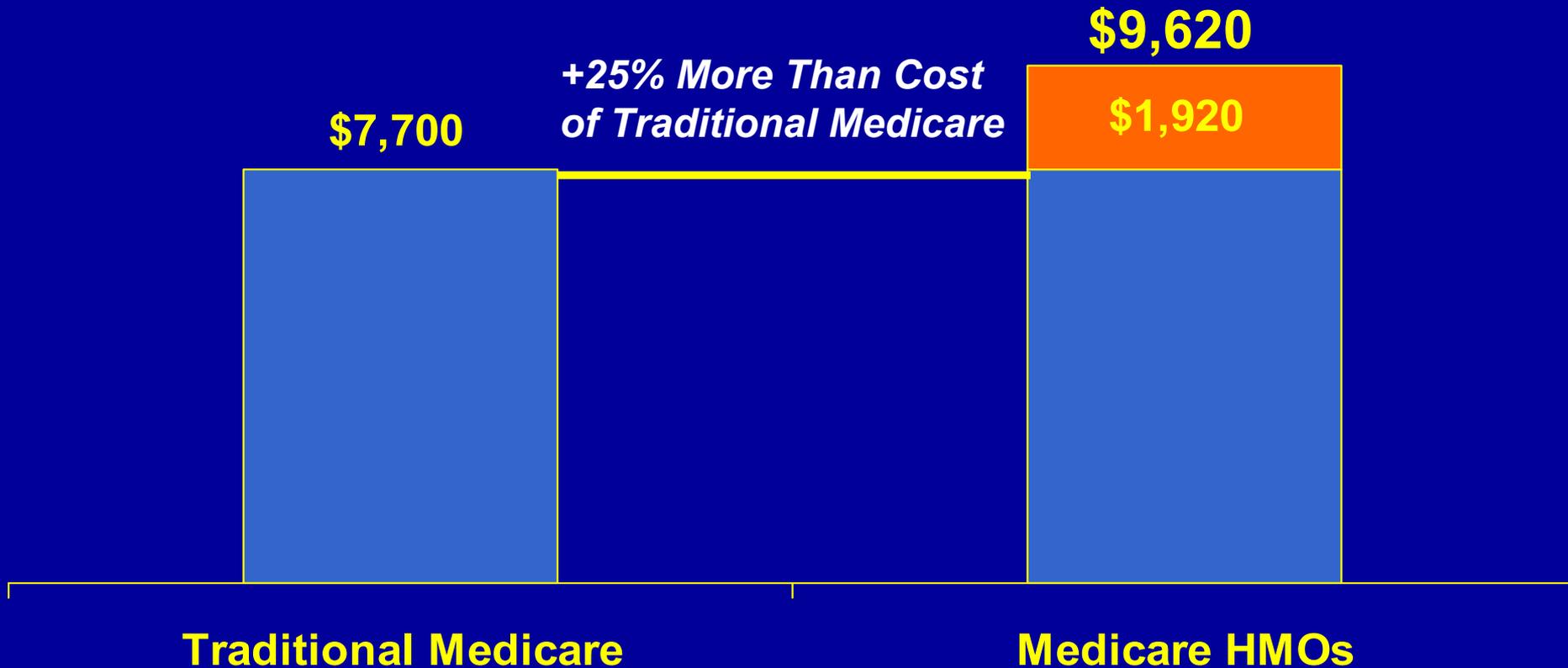
# **“Competition” in Medicare**

## **Three Policies**

- **2004: Increases in HMO payments rates**
- **2006: Creating of PPO system**
- **2010: Implementation of Premium Support Demonstration**

# Conference Plan Overpays HMOs By \$1,920 Per Beneficiary in 2006

**25% Increase, Including 19% Existing Overpayment**  
**Average Spending Per Medicare Beneficiary, 2006**



Source: CMS 2004 AAPC inflated to 2006 using CBO estimated traditional Medicare cost growth. Estimate of increases in 15  
Payment rates relative to traditional Medicare from preliminary Medicare Payment Advisory Commission estimates  
Source: Democratic Staff of the Energy and Commerce and Ways and Means Committees

# **New Preferred Provider Organization (PPO) System Paid Even More**

- **Upper payment rates set using HMO rates**
  - Rates will be 25 percent above traditional Medicare costs
- **Allows for “risk corridors”**
  - Medicare shares excess cost, even if for poor performance
- **Created unprecedented \$12 billion stabilization fund to increase payments further to attract or keep PPOs in regions**
  - Unprecedented in federal health policy
  - Anti-competitive: rewards plans that hold out, penalizes plans that play by the rules

# Premium Support Demonstration in 2010

- **Premium support demonstration**
  - 6 sites for 6 years, beginning in 2010
  - Premiums increase by no more than 5%
  - Beneficiaries qualifying for prescription drug low-income assistance have no premium increase
- **Concerns**
  - Heart of the policy, despite constraints, is a cap on Medicare spending, shifting liability for cost excesses to beneficiaries
  - Moves people to HMOs because older, sicker beneficiaries prefer traditional Medicare

# “Cost Containment”: Merges Medicare Trust Funds Caps General Revenue Contribution Insolvency 10 Years Earlier



**New Insolvency Date**



~ Missing Data for Years 1973–1977 and 1989

# Beyond Medicare

- **Prescription drug cost containment for all Americans**
  - Allows reimportation of drugs from Canada only with safety certification
  - Increases access to generic drugs, but weaker than in the Senate
- **Creates Health Savings Accounts, which are tax shelters for funding for medical services**
- **Could create state financing problems**

# DIFFERENCES FROM SENATE BILL

	<b>SENATE</b>	<b>CONFERENCE</b>
<b>Larger “Donut Hole”</b>	\$1,300	\$2,850
<b>Worse Rural Access</b>	Defined Regions, 2 Private Drug Insurers	No Defined Regions 1 Private Drug Insurer
<b>Worse Low-Income Assistance</b>	15 Million Helped	10 Million Helped Scale-Back for 6 Million Lowest-Income Beneficiaries
<b>Retirees Still Lose</b>	4.3 Million Lose Coverage	2.7 Million Lose Coverage
<b>More \$ for HMOs</b>		✓
<b>Premium Support</b>		✓
<b>Cap on Trust Fund</b>		✓
<b>Health Savings Accts.</b>		✓