



THE
COMMONWEALTH
FUND

Current Issues in Medicare

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Current Issues

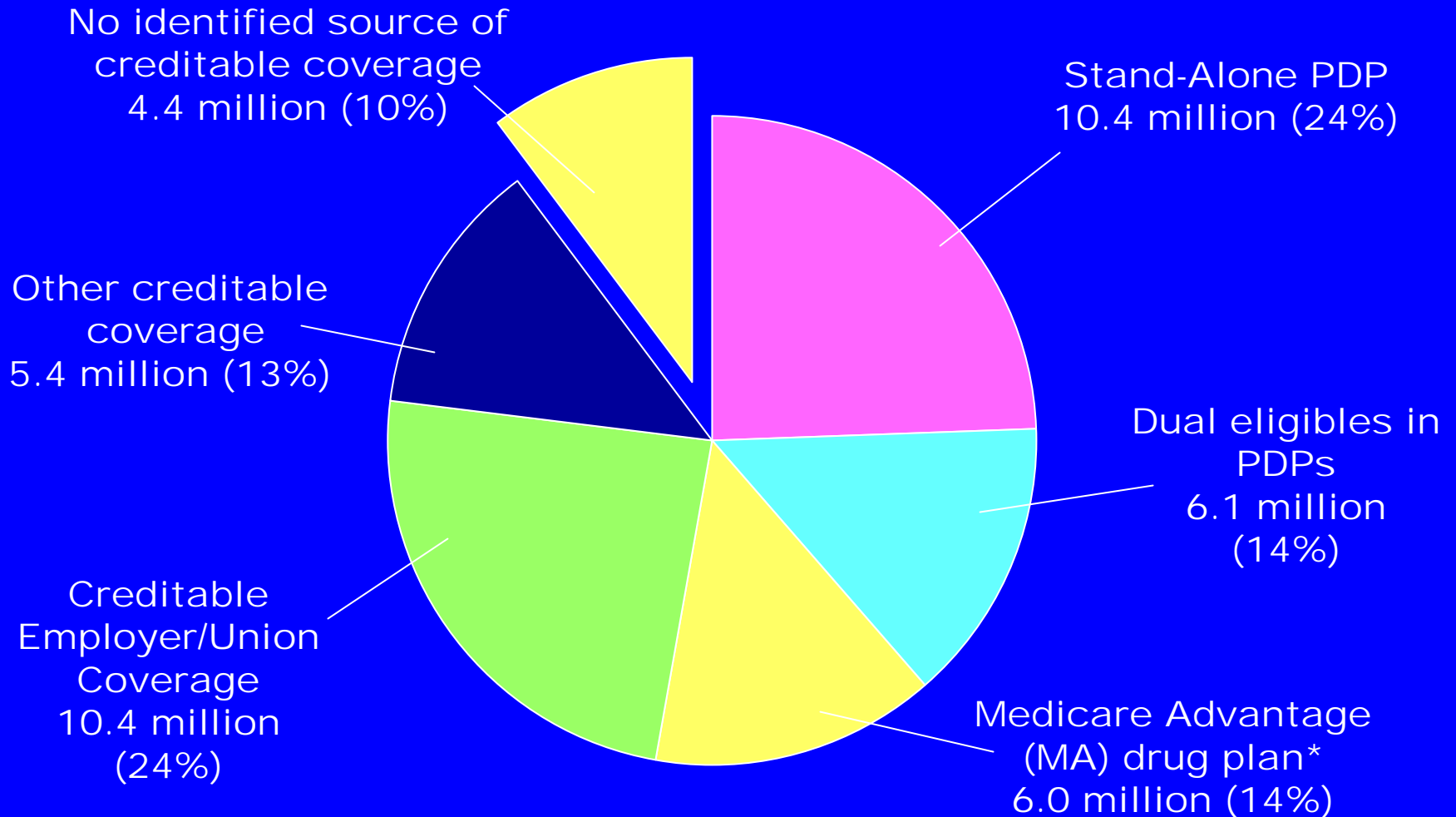
- Update on Medicare Prescription Drug Benefit
- The Role of Private Plans in Medicare
- Specialty Hospitals and Hospital Payment Changes
- Physician Payment Issues
- Part B Premiums



Update on Medicare Prescription Drug Benefit



HHS Estimates of Prescription Drug Coverage Among Medicare Beneficiaries, As of June 11, 2006

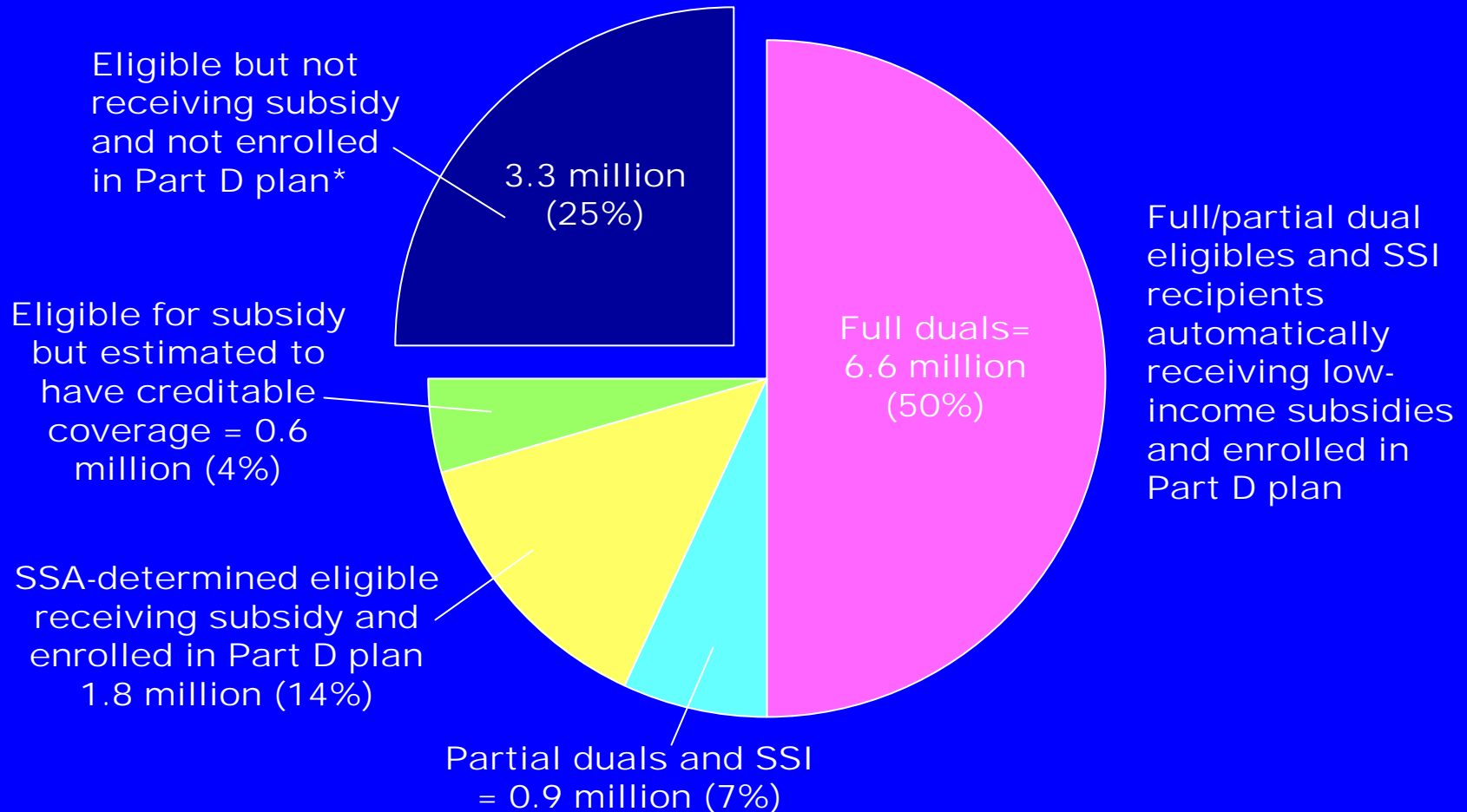


* Approximately 0.5 million dual eligibles are enrolled in MA drug plans and are reported in this category.

Source: "Prescription Drug Coverage Among Medicare Beneficiaries." Kaiser Family Foundation. June 2006.



HHS Estimates of Eligibility and Participation in the Medicare Part D Low-Income Subsidy, As of June, 11 2006



Beneficiaries Eligible for Low-Income Subsidy = 13.2 Million

* Includes future anticipated facilitated enrollment of 0.1 million beneficiaries.

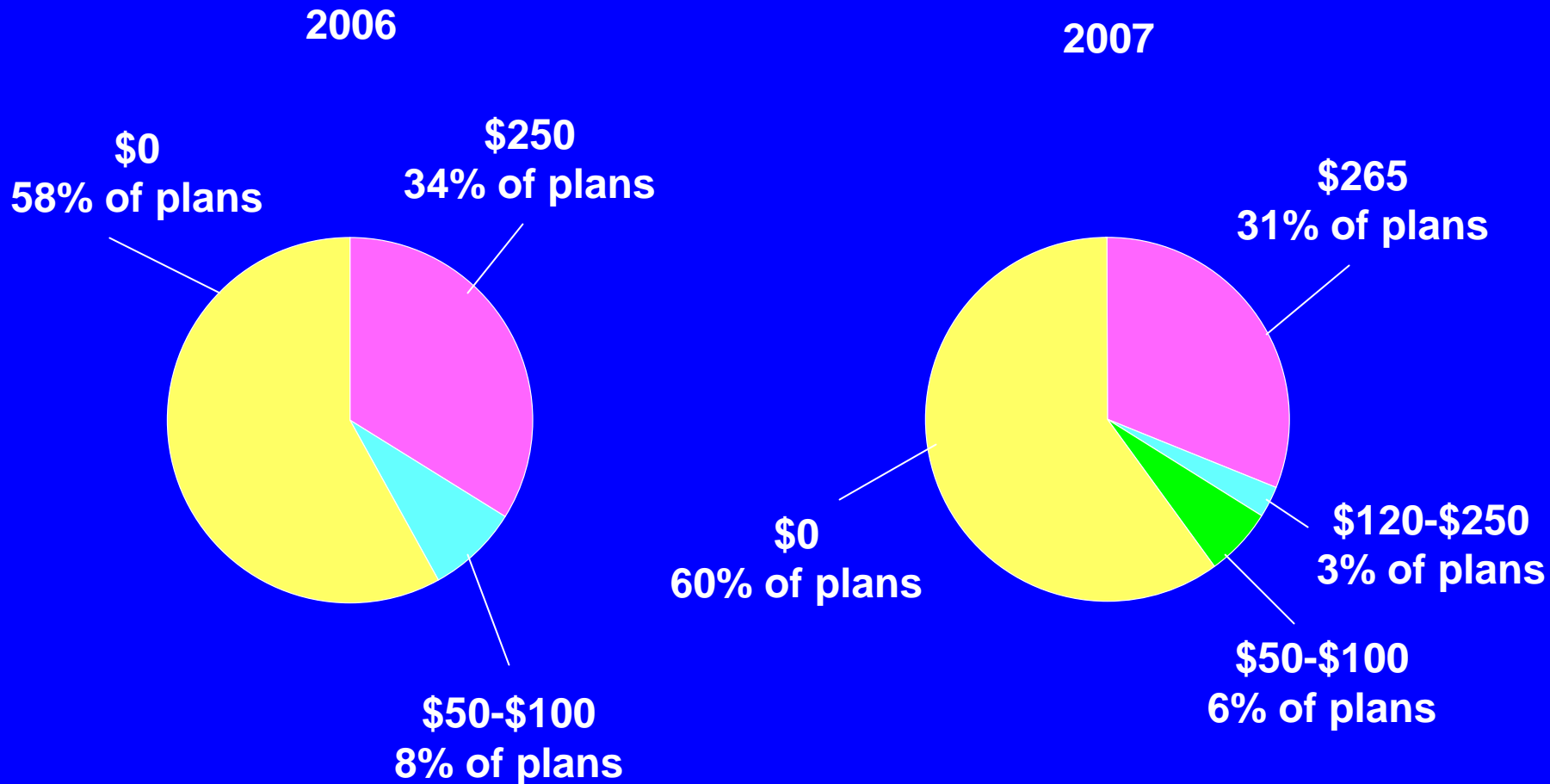
Source: Prescription Drug Coverage Among Medicare Beneficiaries." Kaiser Family Foundation. June 2006.



Low-Income Subsidies: The Asset Test

- As of May 26, 2006, SSA had found 1.8 million beneficiaries eligible for low-income subsidies and 2.3 million ineligible
- An earlier analysis performed by SSA of ineligible applicants indicated that 57 percent of them had excess resources, 32 percent had excess income, and 11 percent had both excess income and resources
- Rice and Desmond (2005) estimated that 2.4 million Medicare beneficiaries with incomes below 150% of poverty would not qualify for additional assistance in 2006 because of assets exceeding the eligibility threshold

Deductibles Offered by Medicare Stand-Alone Prescription Drug Plans, 2006 and 2007

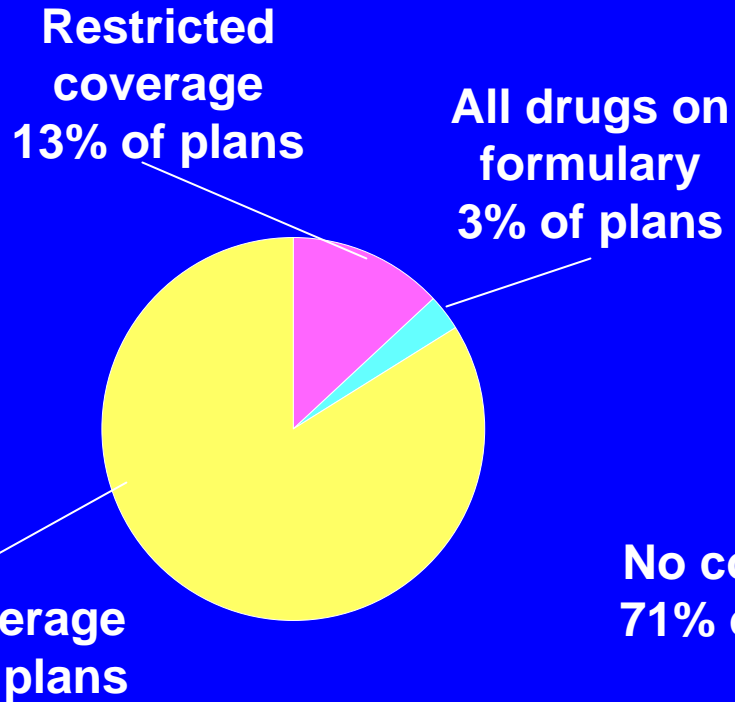


Source: CMS, PDP Landscape of Local Plans Source File as of November 15, 2005 and as of September 26, 2006.

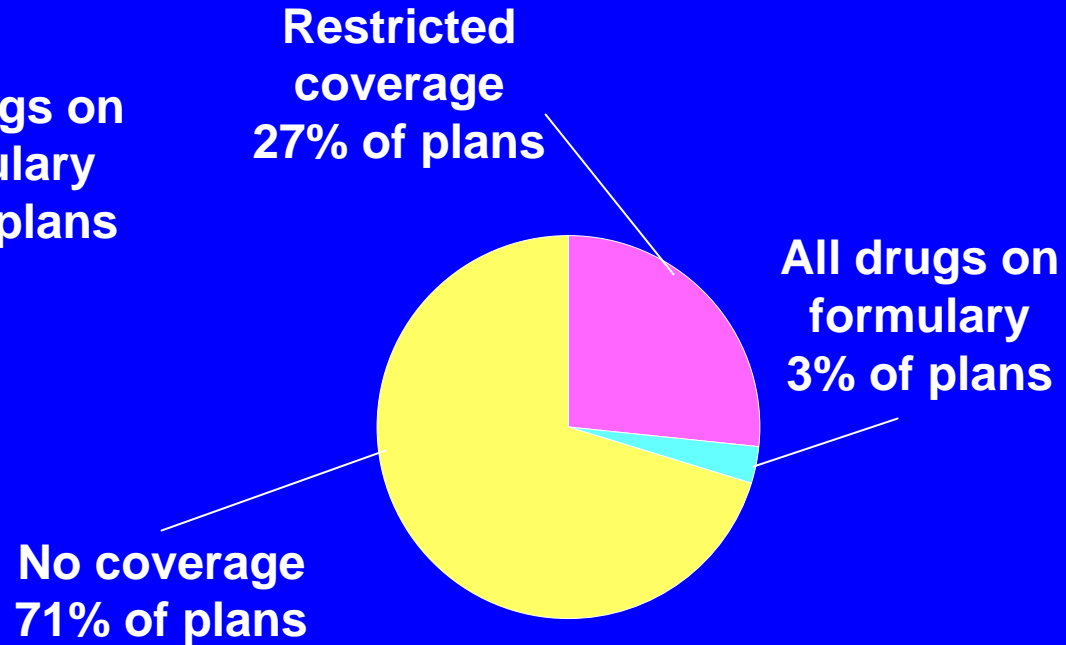


Availability of Coverage in the Part D "Coverage Gap", 2006 and 2007

2006



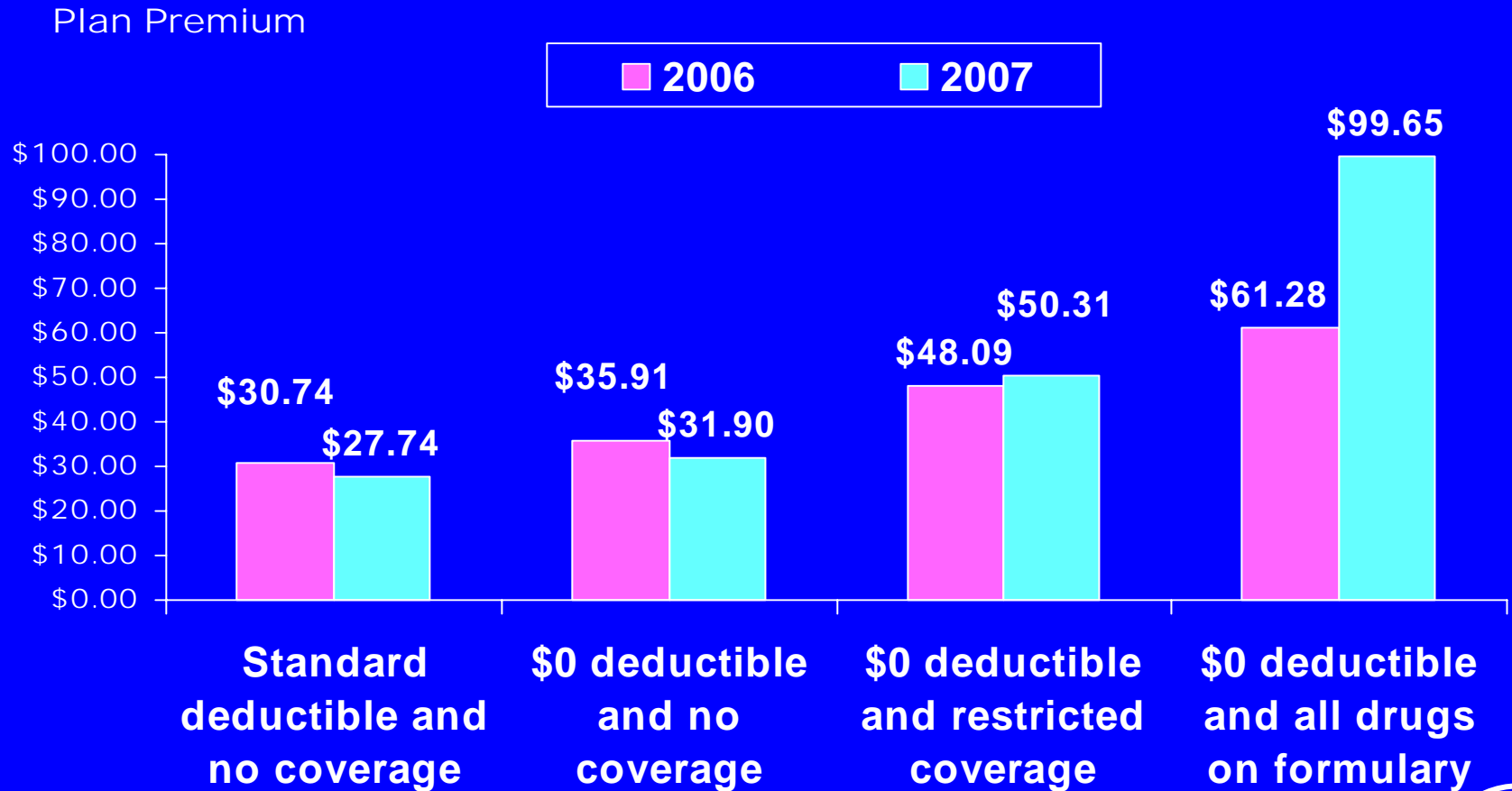
2007



Source: CMS, PDP Landscape of Local Plans Source File as of November 15, 2005 and as of September 26, 2006.



Average Plan Premiums by Deductible and Availability of Coverage in the Part D "Coverage Gap", 2006 and 2007



Source: CMS, PDP Landscape of Local Plans Source File as of November 15, 2005 and as of September 26, 2006.



Part D: Current Policy Issues

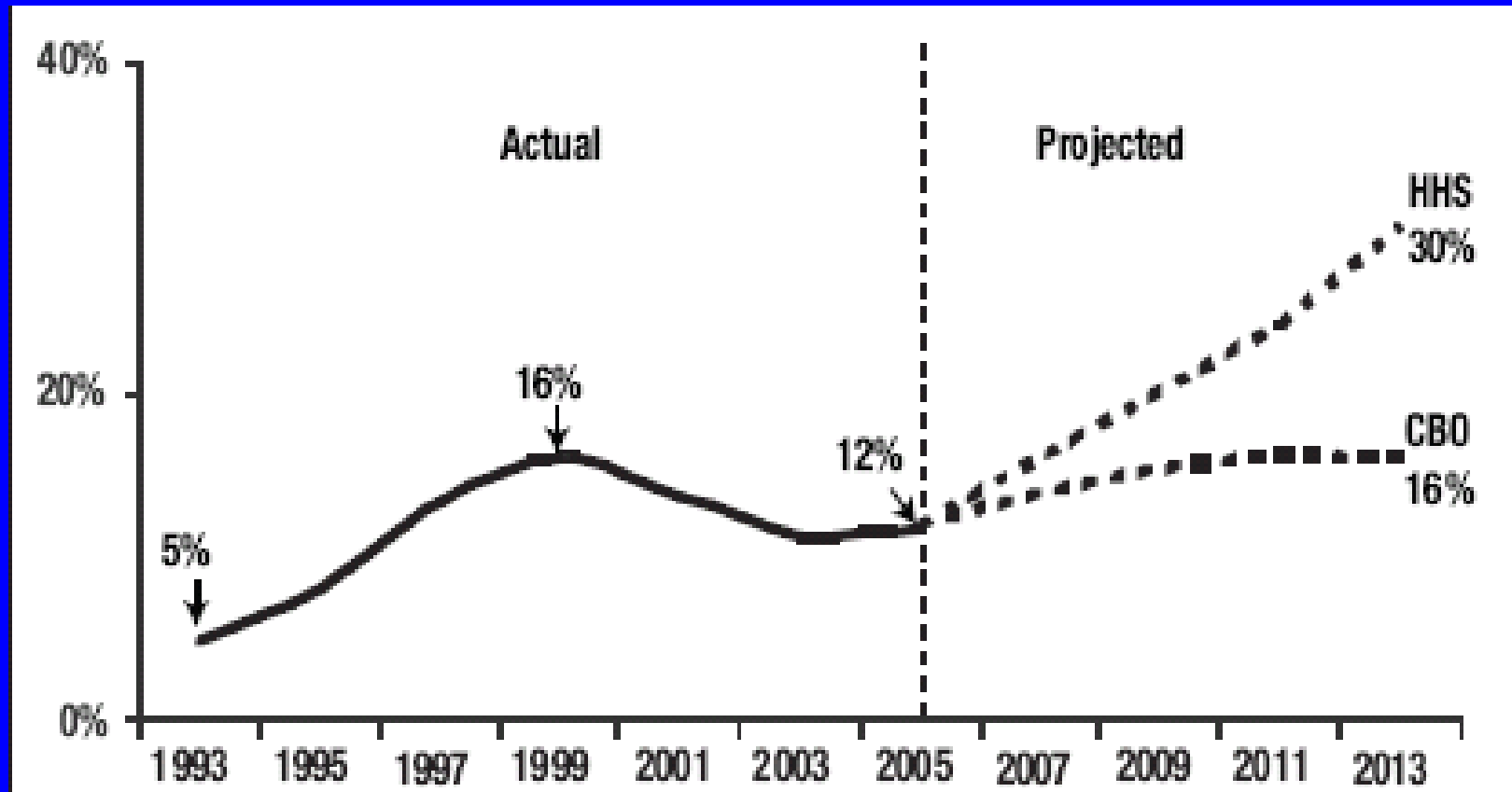
- Monitoring implementation
- Enrollment of low-income beneficiaries
- Coordinating coverage with States
- Impact on most vulnerable beneficiaries
- Ensuring quality and effectiveness



The Role of Private Plans in Medicare



Percentage of Medicare Beneficiaries Enrolled in Medicare Advantage Plans



Source: "Medicare Advantage." Fact Sheet. Kaiser Family Foundation. September 2005.



Projected Payments to MA Plans in Excess of FFS Costs, 2007-2011

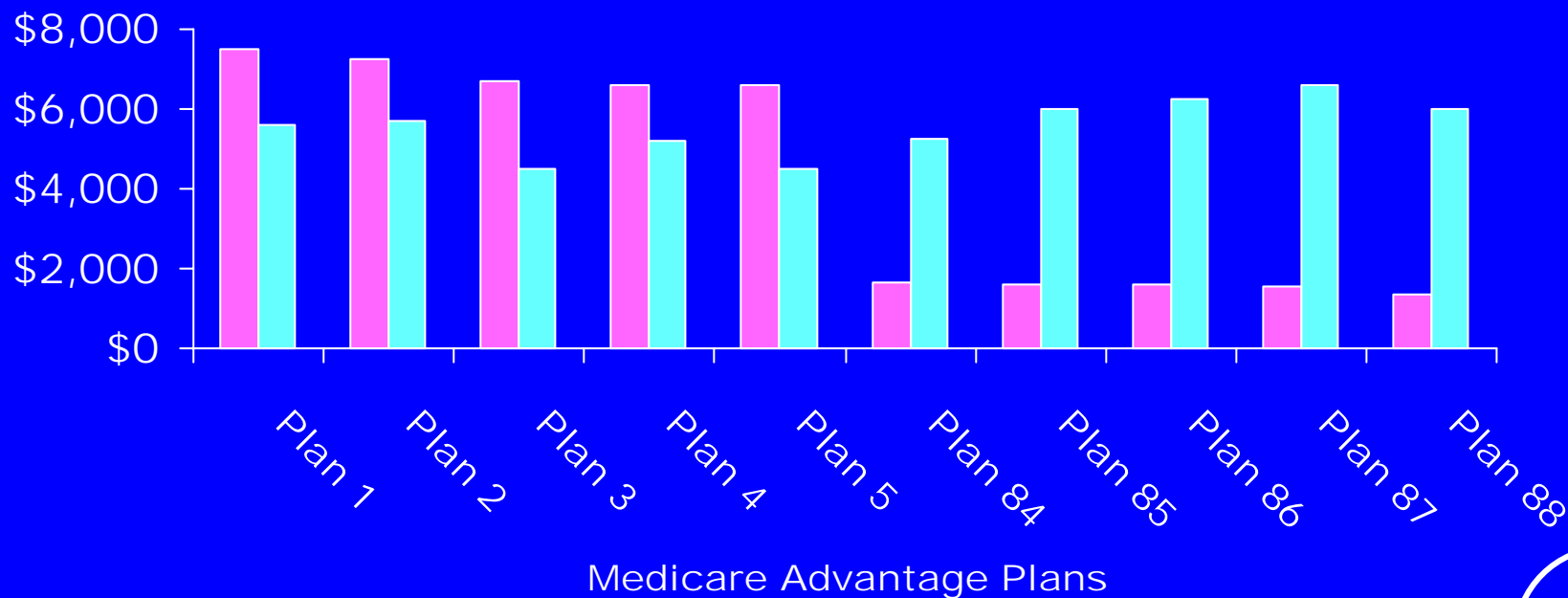
	2007	2008	2009	2010	2011	Total
Benchmark Rates	\$2.7B	\$3.1B	\$3.4B	\$3.7B	\$3.9B	\$16.8B
BNRA Policy	\$2.0B	\$1.4B	\$0.9B	\$0.2B	\$2.2B	\$6.7B
PPO Stabilization Fund	\$1.0B	\$1.1B	\$1.2B	\$1.3B	\$1.4B	\$6.0B
Total	\$5.7B	\$5.6B	\$5.5B	\$5.2B	\$7.5B	\$29.5B

Source: B. Biles, E. Adrion. "Payments to Medicare Advantage Plans Exceed Fee-for-Service Costs" The George Washington University, Center for Health Services Research & Policy, September 2006.

Comparison of Estimated Out-of-Pocket Costs for Individuals in Poor Health in 2005, Selected MA Plans vs. Fee-for-Service

■ Out-of-Pocket Costs for Medicare Advantage Plan

■ Out-of-Pocket Costs for Medicare Fee-for-Service Plus Medigap Plan F



Source: B. Biles, L. Hersch Nicholas, and S. Guterman. "Medicare Beneficiary Out-of-Pocket Costs: Are Medicare Advantage Plans a Better Deal?" The Commonwealth Fund. May 2006.



Medicare Advantage: Current Policy Issues

- Level of payment
- Risk adjustment
- Impact on beneficiaries
- Coordination of care for those with special needs
- Quality improvement

Specialty Hospitals and Hospital Payment Changes



Specialty Hospitals: A Problem or a Symptom?

- Concerns over specialty hospitals include: physician owners controlling flow of patients and avoiding patients who are uninsured or underinsured
- Two congressionally mandated reports examined specialty hospitals
 - The MedPAC report concluded that specialty hospitals tend to treat more profitable patients and fewer Medicaid patients than do community hospitals in the same market
 - The CMS report found that in most study sites, Medicare cardiac patients treated in cardiac specialty hospitals were less ill than those treated in community hospitals
- Congressional findings indicate a need to refine the accuracy of Medicare payment rates
- The controversy over specialty hospitals indicates a much broader problem with the health care financing system

Proposed Changes to Hospital Payment

- Refine DRGs to more fully capture differences in severity of illness (20 new DRGs and 32 modified DRGs)
- Move from charge-based to cost based DRG relative weights (3-year phase-in)
- Base weights on national average of hospitals' relative values in each DRG (no change)
- Adjust relative weights to account for difference in prevalence of outlier cases (no change)
- Interpretation of EMTALA obligations

Distribution of Changes in Estimated Medicare Payments, FY 2006 to FY 2007

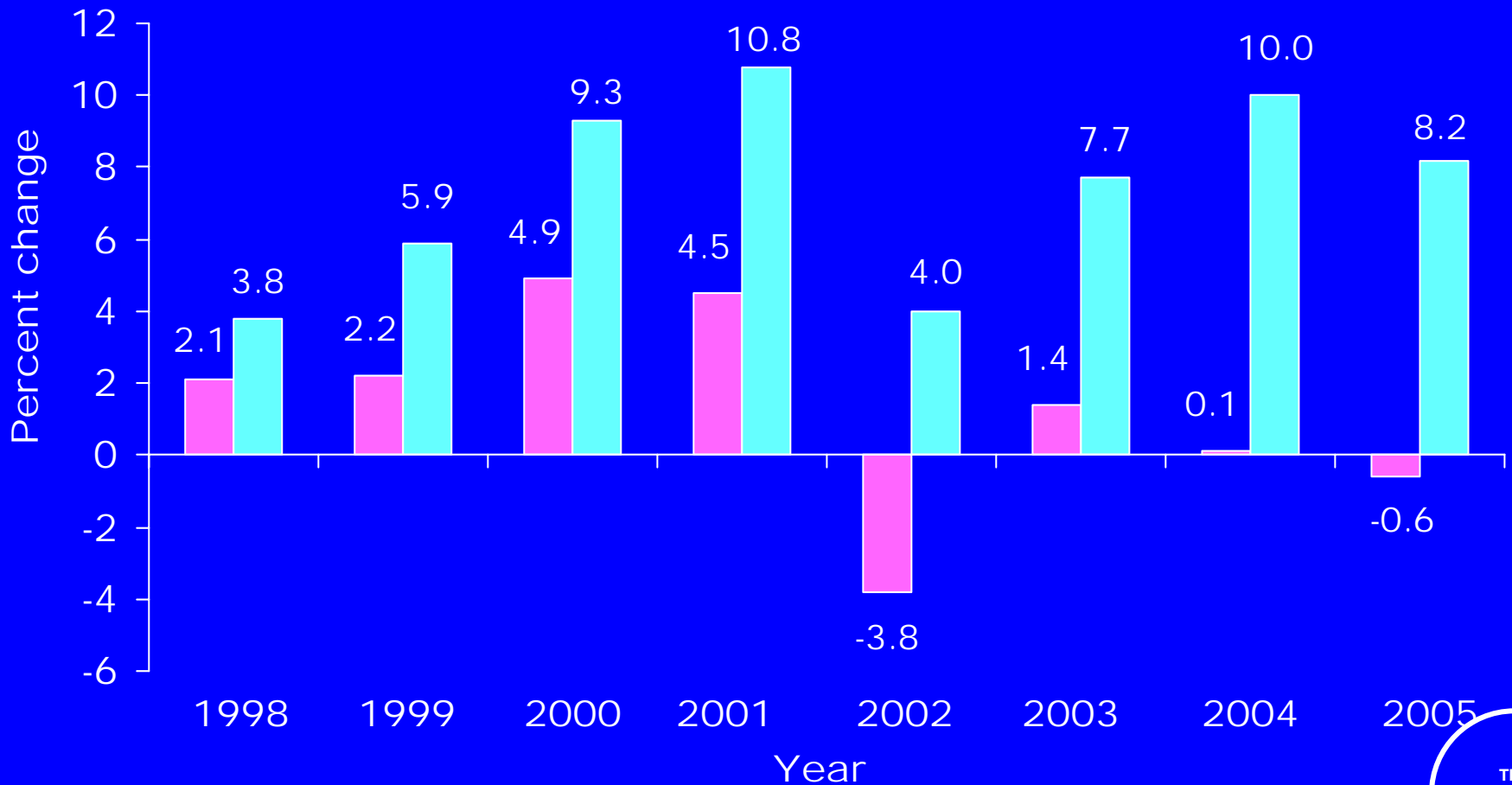
Percent change in PPS payments	Number of hospitals affected	
	Proposed rule	Final rule
Decrease 10%+	14	3
Decrease 5-10%	31	4
Decrease 1-5%	140	41
Decrease <1%	106	30
Increase <1%	144	98
Increase 1-5%	831	2711
Increase 5-10%	1733	609
Increase 10%+	523	99

Physician Payment Issues



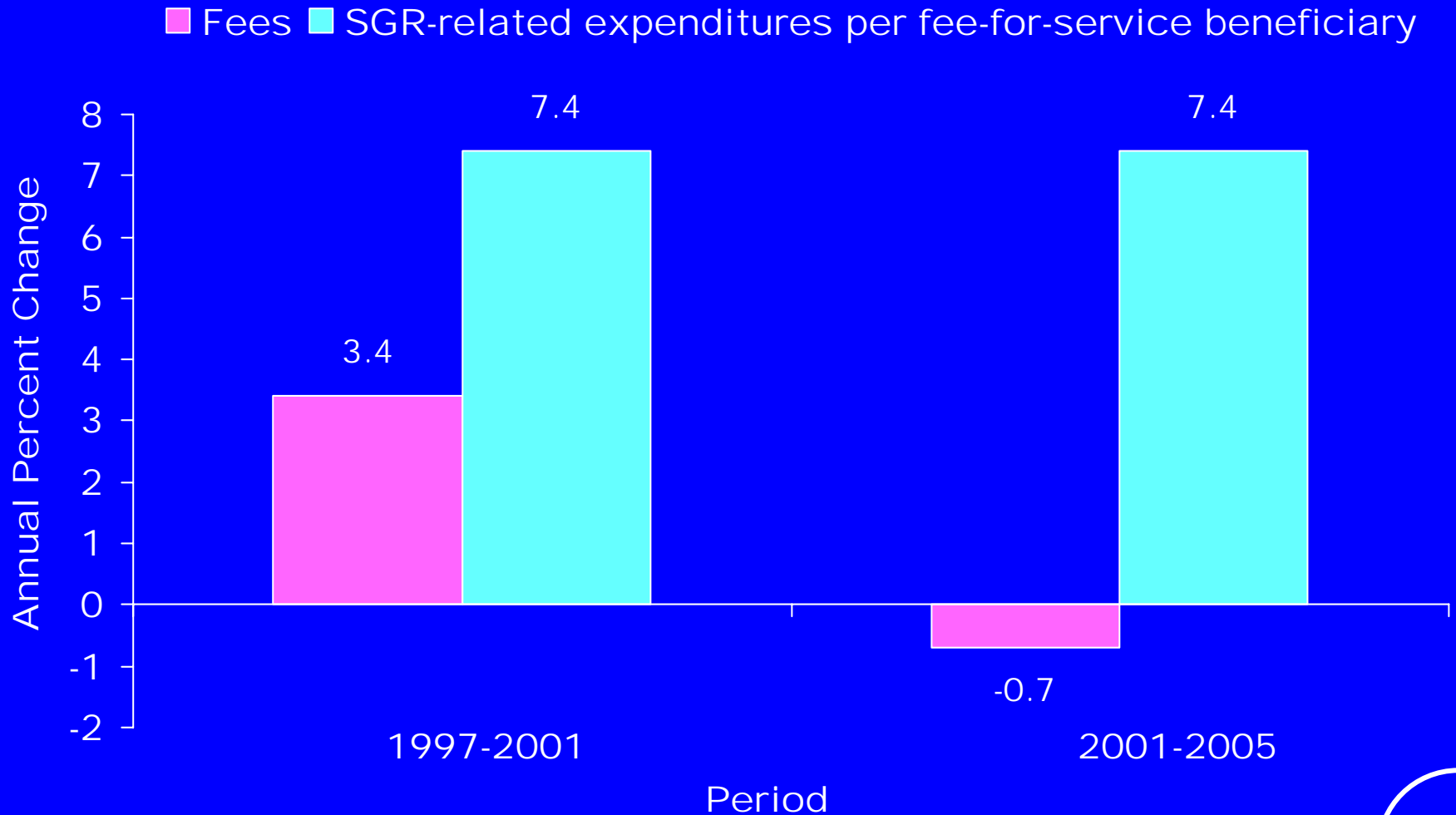
Annual Increases in Physician Fees and SGR-Related Expenditures Per Fee-for-Service Beneficiary, 1998-2005

■ Fees ■ SGR-related expenditures per fee-for-service beneficiary



Source: Letter to Glenn M. Hackbarth, Chair, Medicare Payment Advisory Commission, from Herb B. Kuhn, Director, Center for Medicare Management, Centers for Medicare and Medicaid Services, dated April 7, 2006.

Annual Rates of Increase in Physician Fees and SGR-Related Expenditures Per Fee-for-Service Beneficiary, 1997-2001 and 2001-2005



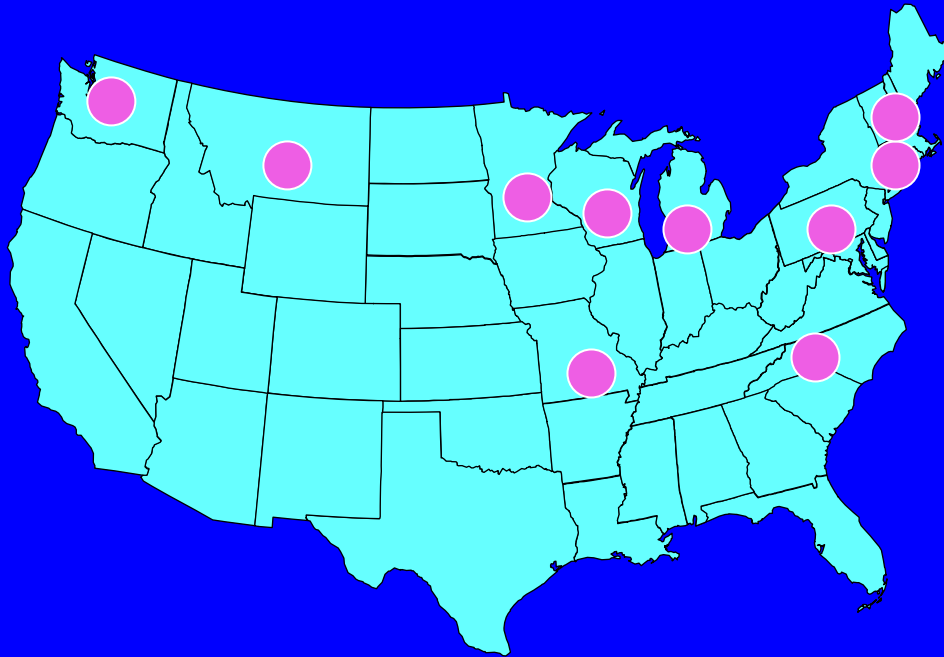
Source: Letter to Glenn M. Hackbarth, Chair, Medicare Payment Advisory Commission, from Herb B. Kuhn, Director, Center for Medicare Management, Centers for Medicare and Medicaid Services, dated April 7, 2006.



Are We Getting What We Pay For? Are We Paying For What We Want?

- Sustainable Growth Rate (SGR) mechanism offers no control over the volume and intensity provided by the individual physician
- Increasing physician payment would raise the Part B premium, placing more of a burden on beneficiaries
- Quality and coordination of care are lacking in the U.S. health care system; therefore, we must pay more attention to what we get for our money
- P4P initiatives show promise, but must be carefully designed and implemented
- Cost and quality should be evaluated together and on a broader basis than individual services or providers
- Changes to payment policy should be evaluated for their long-term impact

Medicare Physician Group Practice Demonstration

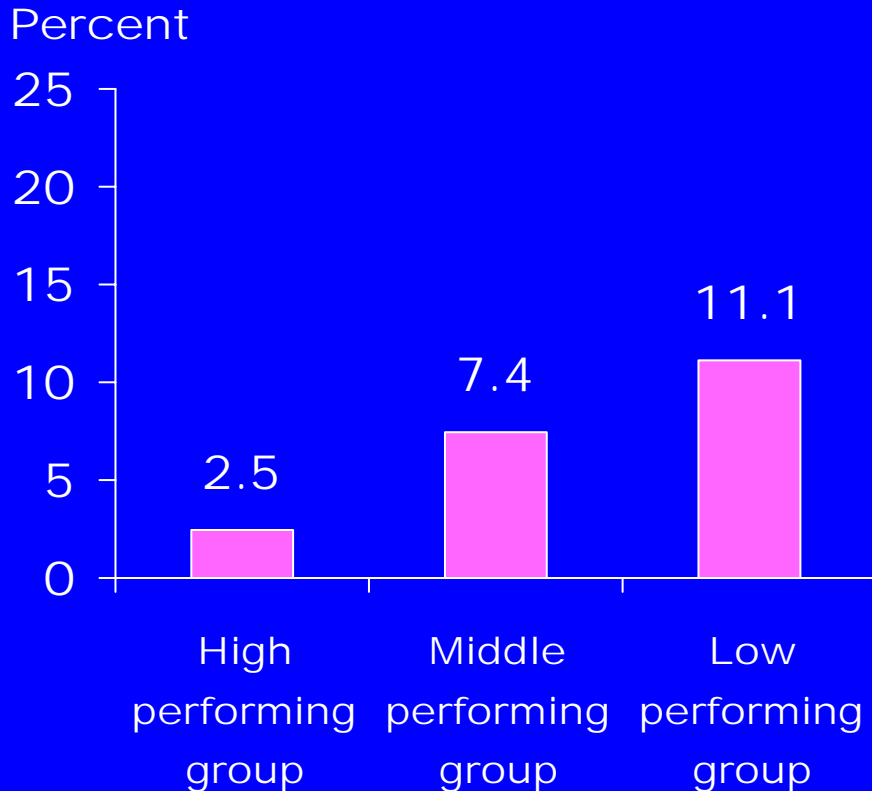


- The Everett Clinic (WA)
- Deaconess Billings Clinic
- Park Nicollet Health Services (MN)
- Marshfield Clinic (WI)
- St. John's Health System (MO)
- Univ. of Michigan Faculty Group Practice
- Geisinger Health System (PA)
- Forsyth Medical (NC)
- Middlesex Health (CN)
- Dartmouth-Hitchcock Clinic

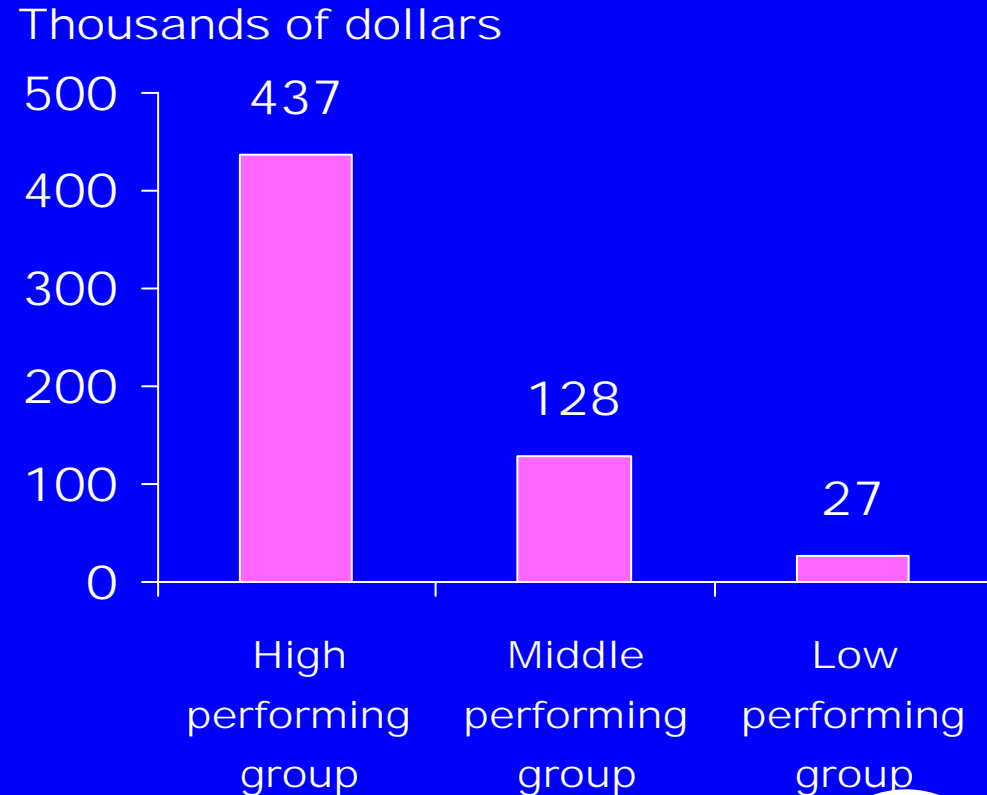
- 10 physician group practices
- 3-year project, began April 2005
- Bonus pool based on savings relative to local area
- Practices expected to save 2%, keep up to 80% of additional savings
- Actual bonuses depend on savings and quality targets

Improvement in Doctors' Cervical Cancer Screening Rates Compared to Bonus Payments After Implementation of Quality Incentive Program

Improvement in Screening Rates



Bonuses Received

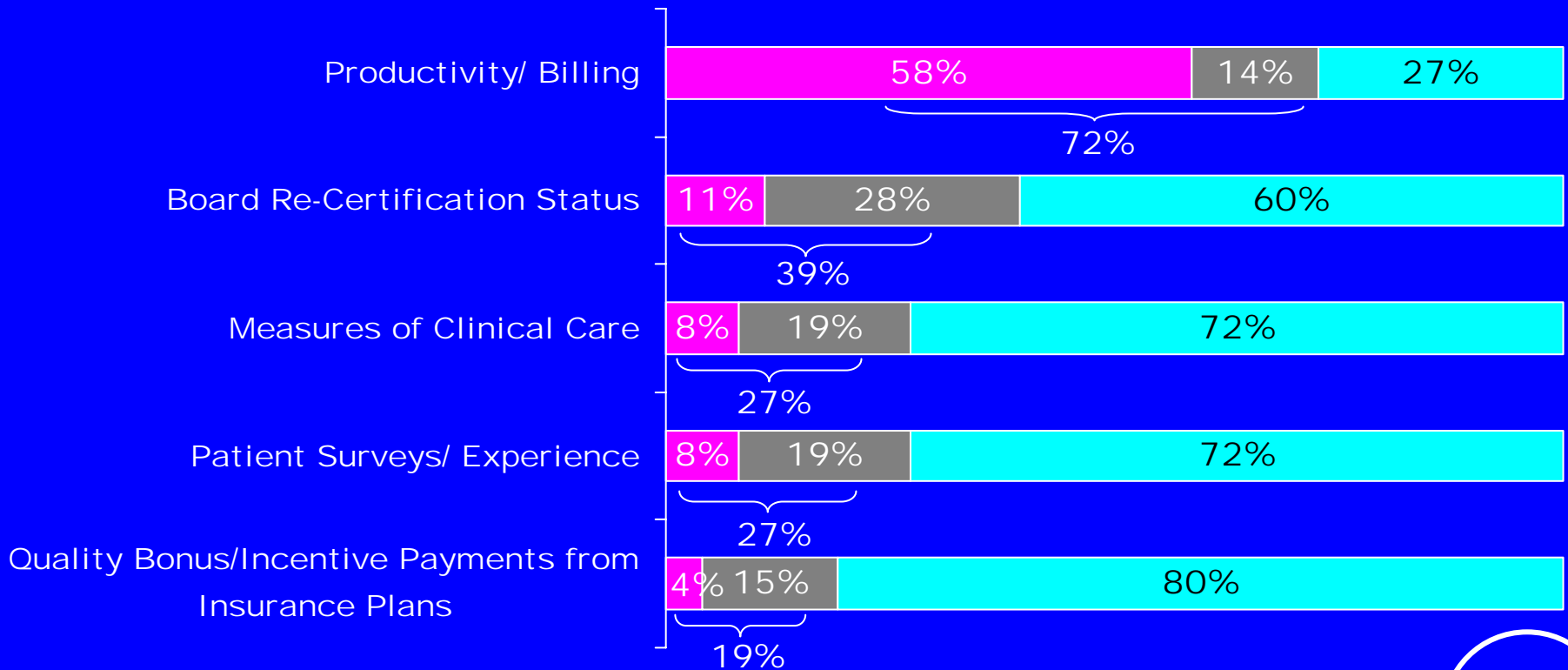


Current Factors Affecting Physicians' Compensation

■ Major Factor

■ Minor Factor

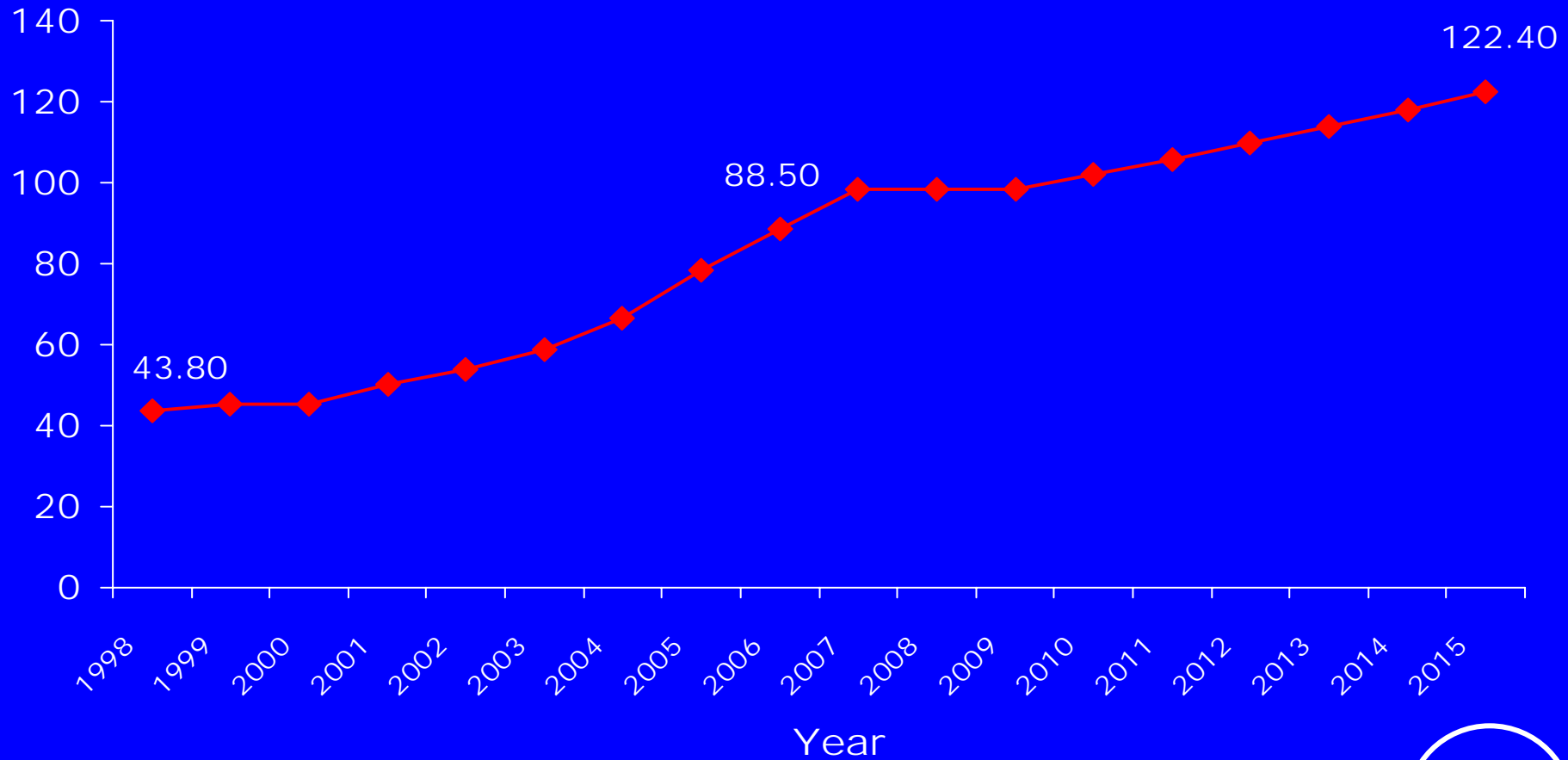
■ Not a Factor



Part B Premiums

Medicare Part B Premium (Monthly), 1998-2006 (Actual) and 2007-2015 (Projected)

Part B Premium



Source: Board of Trustees, Federal HI and Federal SMI Trust Funds, 2006 Annual Report.



Income-Related Part B Premiums in 2007

Beneficiary Income (Proportion of Beneficiaries)	Premium
<\$80,000 (96.2%)	\$93.50
\$80,000-\$100,000 (1.3%)	\$105.80
\$100,000-\$150,000 (1.2%)	\$124.40
\$150,000-\$200,000 (0.5)	\$142.90
>\$200,000 (0.8%)	\$161.40

Source: CMS Fact Sheet, "Medicare Premiums and Deductibles for 2007," September 12, 2006.