



Need for Blended Approaches

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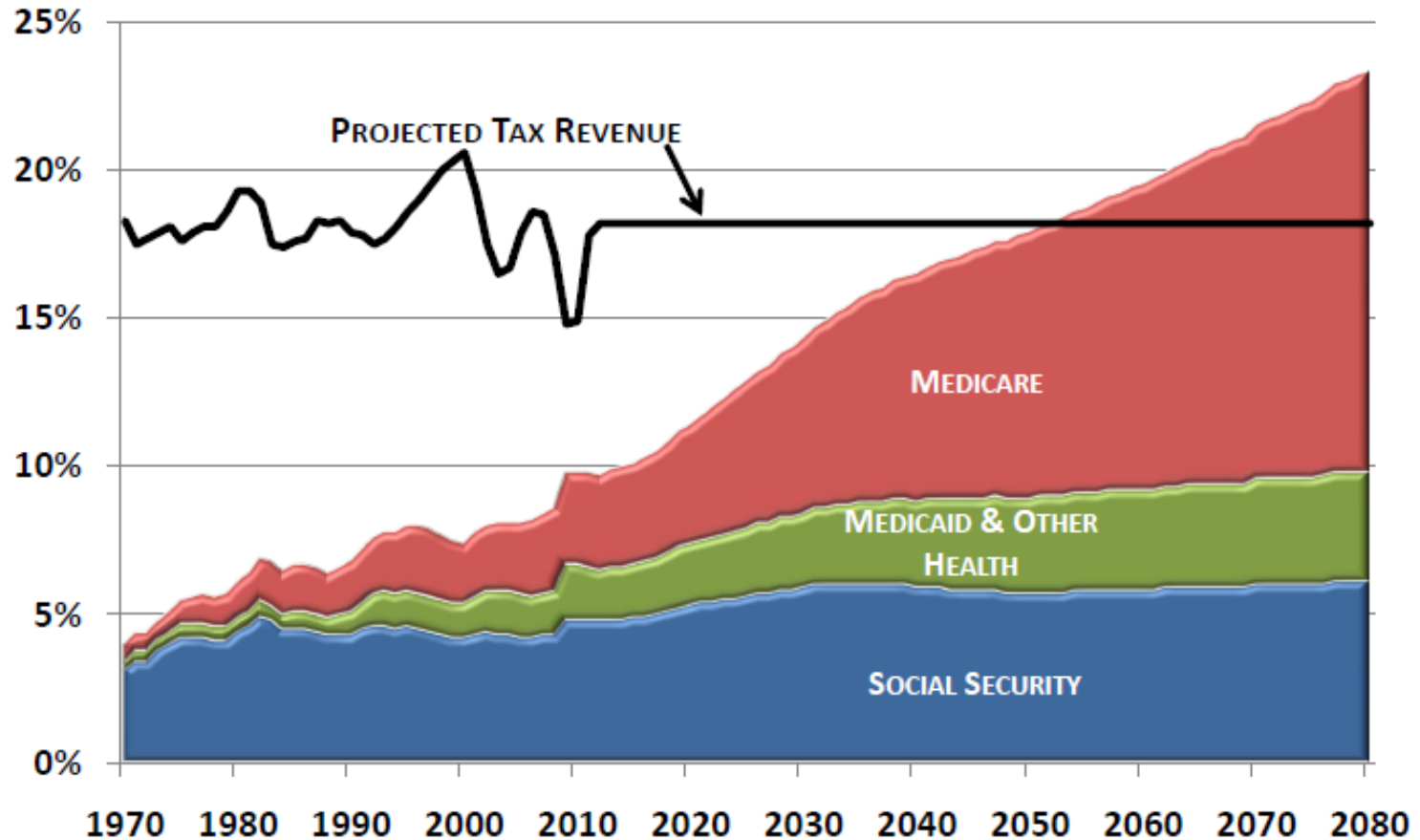
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Severity of Fiscal Challenge from Rising Health Spending

- Baby-boom generation entering Medicare
- Per beneficiary spending growth in public programs exceeding growth in revenue base
- Rapid spending growth increases size of subsidies in ACA more rapidly than revenue growth



WHAT DRIVES OUR DEBT? (GOVERNMENT SPENDING AS SHARE OF ECONOMY)



SOURCE: CBO



Shift in Standards of Political Feasibility

- Changed context from outlook for deficits and debt
- Perspectives of those who have served on commissions
- Can these perspectives be brought to the public



Cost Containment Strategy in ACA

- Piloting and expanding provider payment reforms in Medicare
 - Reduce reliance on FFS
 - Incorporate quality into payment
- Subsidies to purchase exchange plans pegged to market benchmark
- “Cadillac” tax starting in 2018



Medicare Strategies Focus Only on Providers

- Absence of beneficiary incentive to choose more efficient providers
 - Limits provider motivations to improve and program gains from shifting to more efficient providers
- No changes to antiquated benefit structure and de facto full coverage
- IPAB barred from changing benefit structure



Sharp Contrast to Trends in Private Insurance

- Increased patient cost sharing—especially in small group and individual coverage
- Growing interest in tiered benefit designs and narrow networks
- But also increasing interest in provider payment reforms
 - Potential to benefit from Medicare technical work



Ryan Approach to Medicare (1)

- Defined contribution
- Phase out traditional program
- Private plans obtained through a Medicare exchange
- Potential increase in variation of subsidies by income
 - Current discontinuity at age 65



Ryan Approach to Medicare (2)

- Criticisms of approach
 - Adequacy of defined contribution over time
 - General inflation way below even optimistic predictions for “bending trend”
 - Sacrifice advantages of large traditional Medicare program



Advantages of Traditional Medicare

- Low administrative costs
 - No need for sales/marketing
- Ability to get lower rates from providers
 - Potential for cost shifting depends on market environment
- Scale and credibility to reform provider payment



Have Advantages of Traditional Medicare Been Eroding?

- Changes in political environment
 - Increasing resources in lobbying
 - Greater industry presence
 - More partisan divisions
 - Less Congressional support for discretion by CMS
- Can Medicare lead on provider payment reform in this environment?
 - ACO rule will be instructive



Domenici-Rivlin Approach to Medicare Spending (1)

- Continue traditional Medicare as default
- Allowed rate of spending growth per enrollee of GDP+1
 - CBO baseline of GDP+1.7
- Additional premium if allowed rate is exceeded
 - Corresponding reduction in support for Medicare Advantage plans



Domenici-Rivlin Approach to Medicare Spending (2)

- Medicare exchange
 - Increase competitiveness of Medicare Advantage market
 - Reduce costs of distribution
- Complementary policies
 - Phase out health insurance tax exclusion
 - Modernize Medicare benefit structure
 - Charge to IPAB to keep it up to date
 - Reduce barriers to managed care for dual eligibles



Domenici-Rivlin Approach to Medicare Spending (3)

- Rationale for complementary policies
 - Slow spending trend to benchmark
 - Avoid major shift in responsibility to beneficiaries



Use of Triggers to Address Deficits (1)

- Context: Beliefs that current reforms will be effective
 - Or postponing tough decisions
- But can triggers be found that can be pulled?
 - SGR experience
 - Overall limits to desirable payment rate cuts



Use of Triggers to Address Deficits (2)

- Concept: Desirable steps that are almost politically feasible
- Spell out what is triggered versus create a process to get more savings



Process Creation (IPAB) (1)

- Move decision making to less political and more expert environment
- Advantage of deliberation and delay



Process Creation (IPAB) (2)

- But IPAB very unpopular in Congress
 - Sacrifice of power
 - To experts
 - To President who appoints them
 - Sacrifice of campaign contributions
 - Severe limits on authority garners provider opposition



Conclusions

- Increasing feasibility of aggressive cost containment
- But lack of consensus on strategies continues
- Compromise blending strategies instead of agreement to do nothing

