Need for Blended Approaches

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