

Geographic variation in per beneficiary Medicare expenditures

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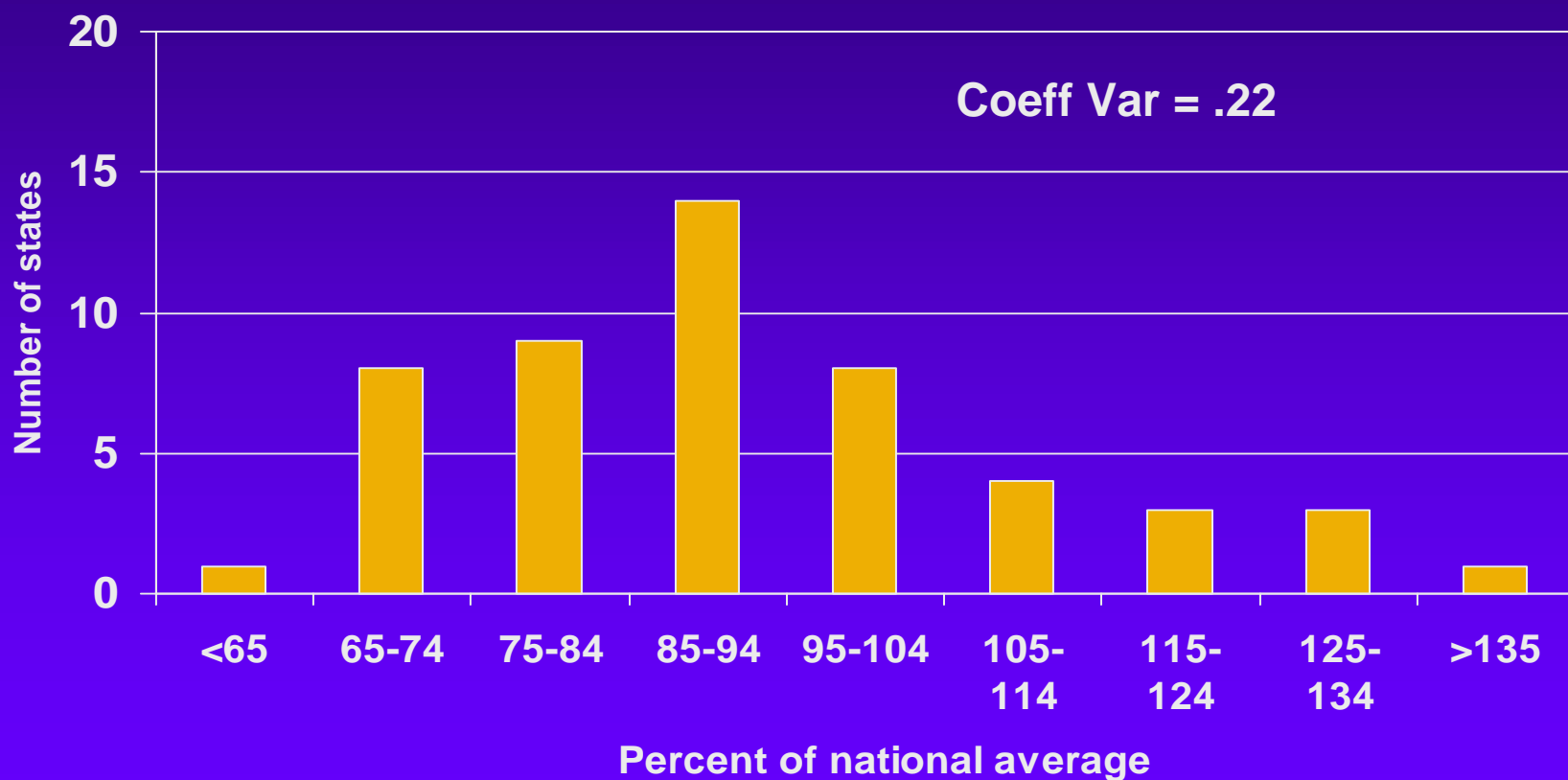
Concern over variation in Medicare expenditures among states

- Large variation in per beneficiary Medicare expenditures among states
- Policymakers from low-expenditure states worried about inequities
 - Beneficiaries being underserved
 - Providers not getting adequate payments
 - HI taxpayers being shortchanged

Geographic disparities are becoming a political issue

- Gov. Vilsac (IA) vs. Scully/Thompson
- Legislative responses (S.172, 375, 816, 881; H.R. 33, 755, 1675)
- Sen. Harkin amendment to FY04 budget resolution
- Bush/Cheney meet with Sen. Grassley on day 12 of Iraq war
- SFC field hearings in Des Moines

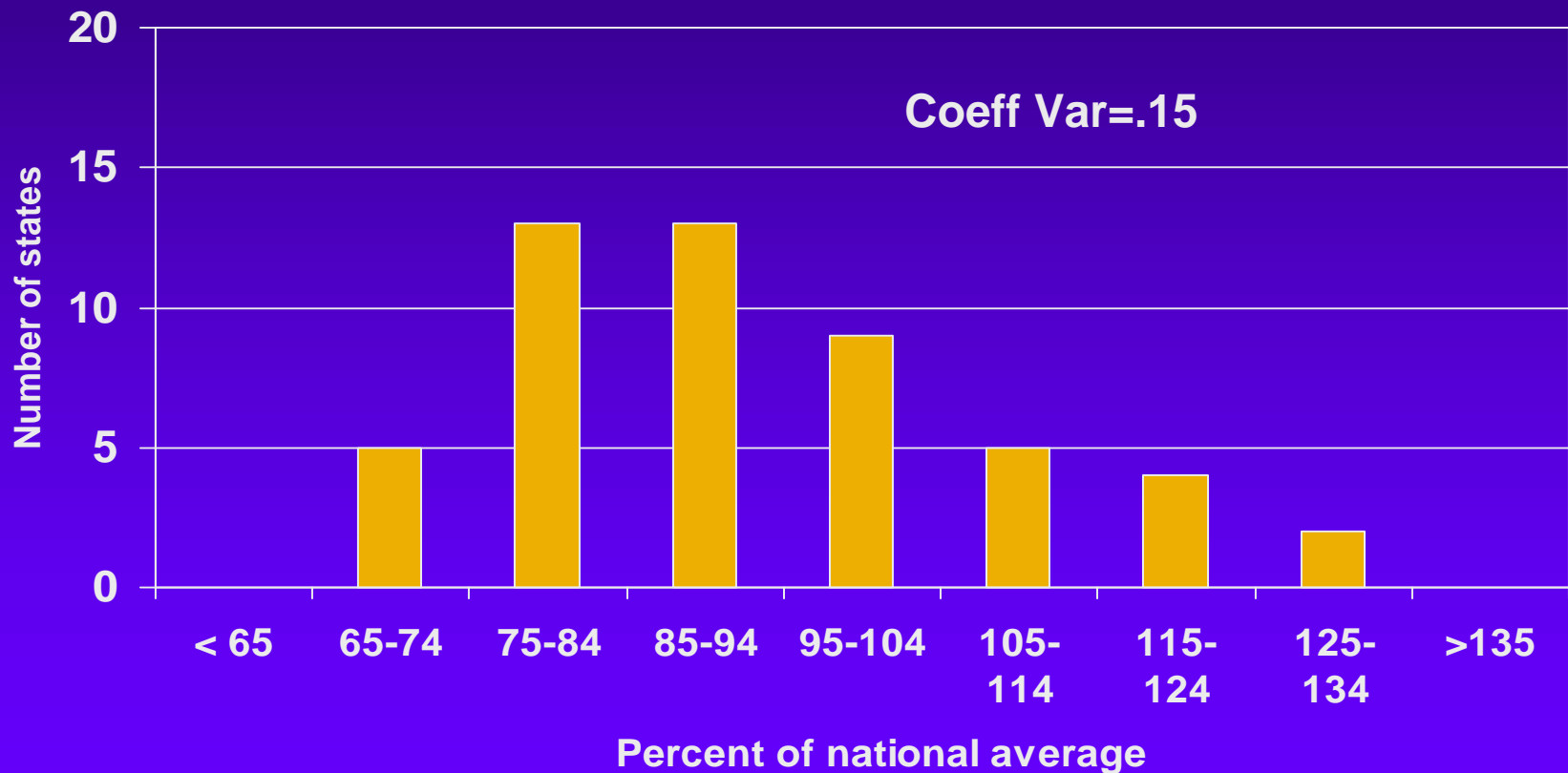
Misleading measure of state-level per beneficiary Medicare expenditures as percent of national average, 2000



Concerns exacerbated by misleading measure

- Measure: payments to providers in state, divided by number of beneficiaries in state
 - Does not account for beneficiaries obtaining care outside their state of residence
 - Uses payments providers receive over year, not payments for services provided over year
- Better measure is per beneficiary expenditures for services used during year by state's FFS Medicare beneficiaries.

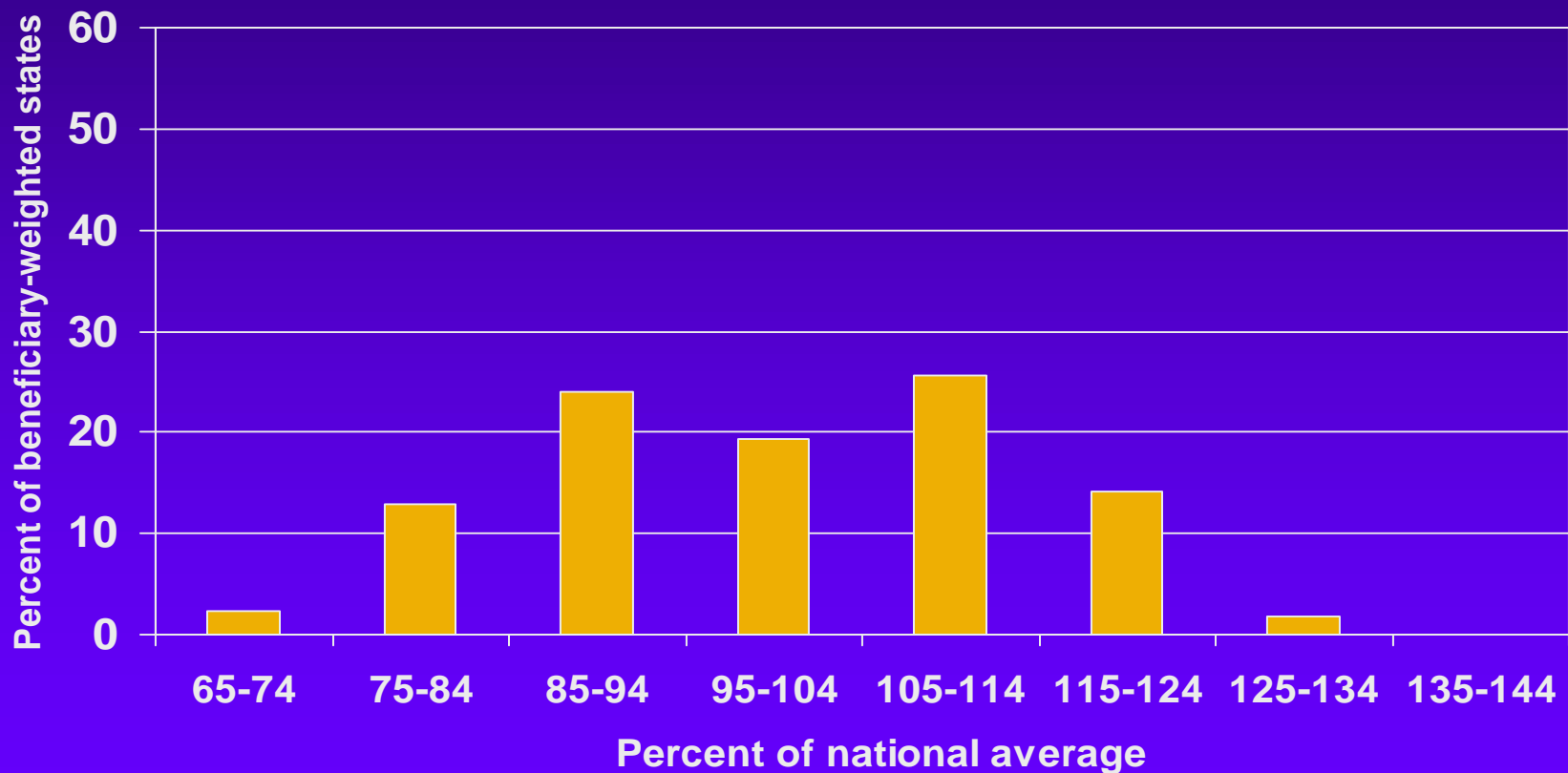
Better measure of state-level per beneficiary Medicare expenditures as percent of national average, 2000



The questions

- How much of the variation reflects deliberate efforts to allocate resources in an equitable fashion (input prices, health needs, etc.)?
- How much of the variation reflects deliberate policies to skew the distributions of resources (DSH, GME, IME)?
- How much of the variation could represent *potential* inequities?

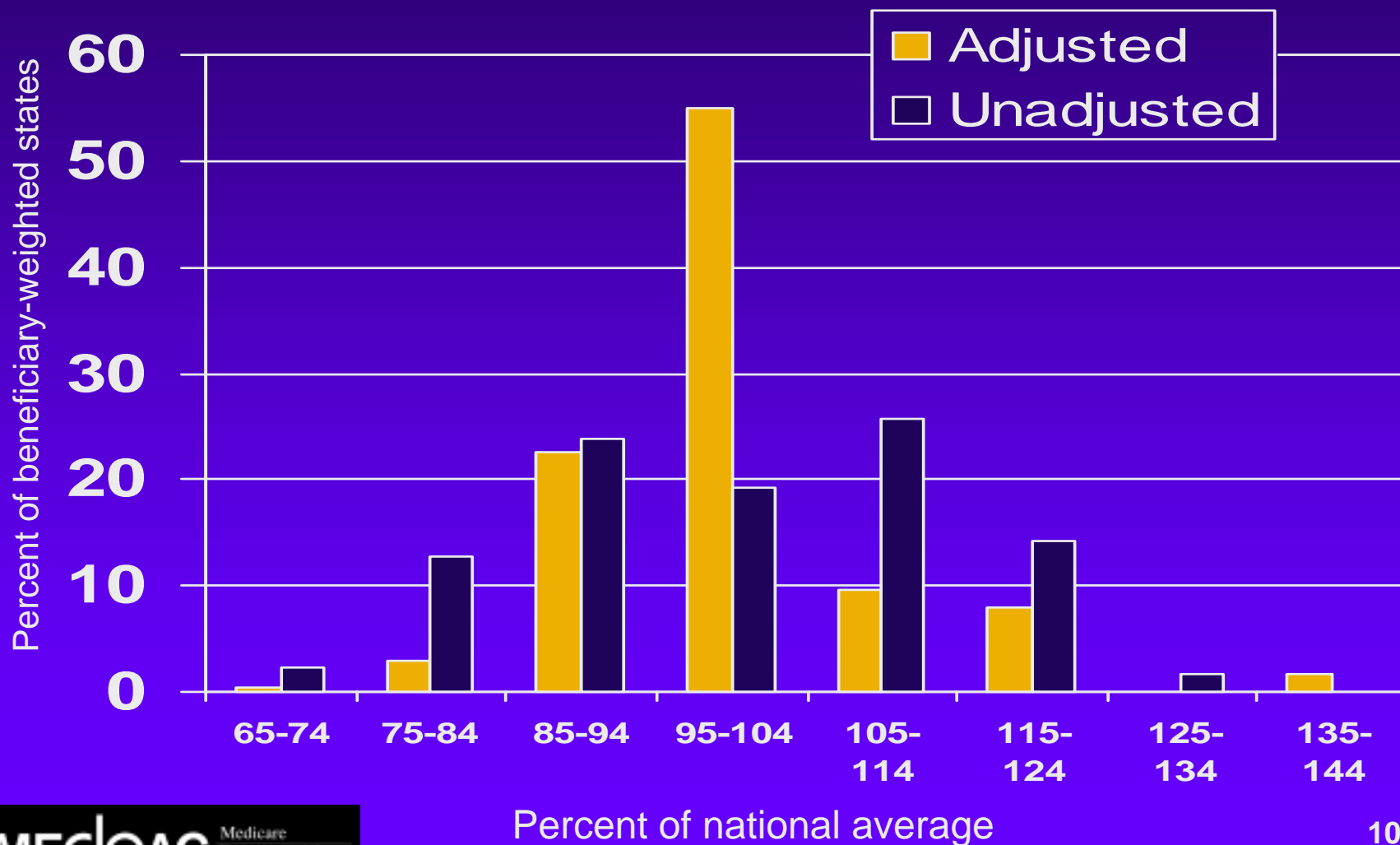
Beneficiary-weighted state-level per beneficiary Medicare expenditures as percent of national average, 2000



Much of variation in FFS expenditures due to:

- Cost of providing care (input price adjusters)
- Health status
- Mix of providers, which affects variation in expenditures in two ways
 - Special payments to teaching, indigent care, and rural hospitals
 - Different payments across sites of care for same procedure (ex. ASC vs. HOPD)

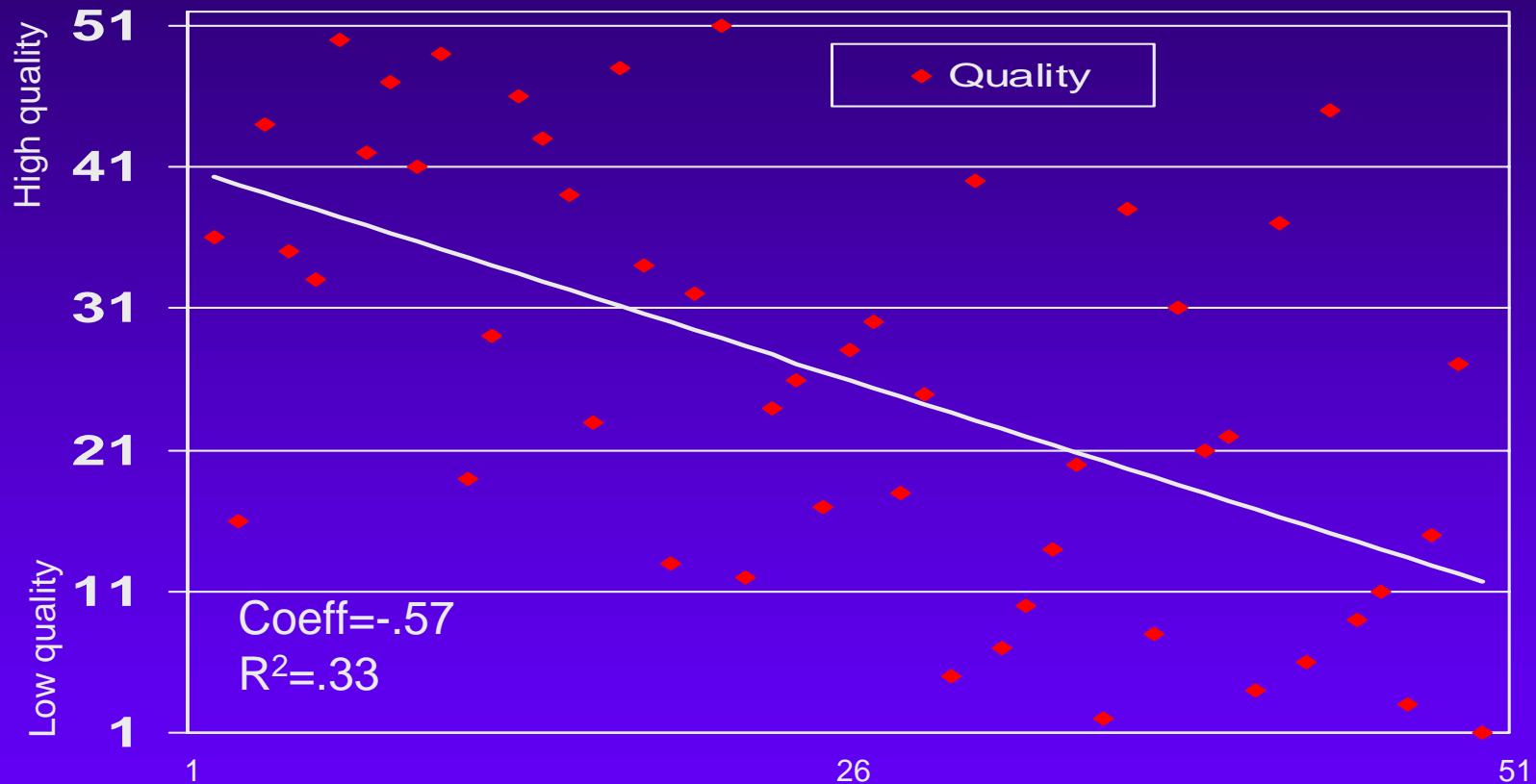
Adjusting for input prices, health status, and special payments reduces variation, 2000



Despite smaller variation, inequity concerns may remain

- Some may surmise beneficiaries in low-use states are underserved, receiving lower-quality care
- Policymakers may be tempted to increase use in low-use states, perhaps through higher payments
- That policy should be considered in light of three issues

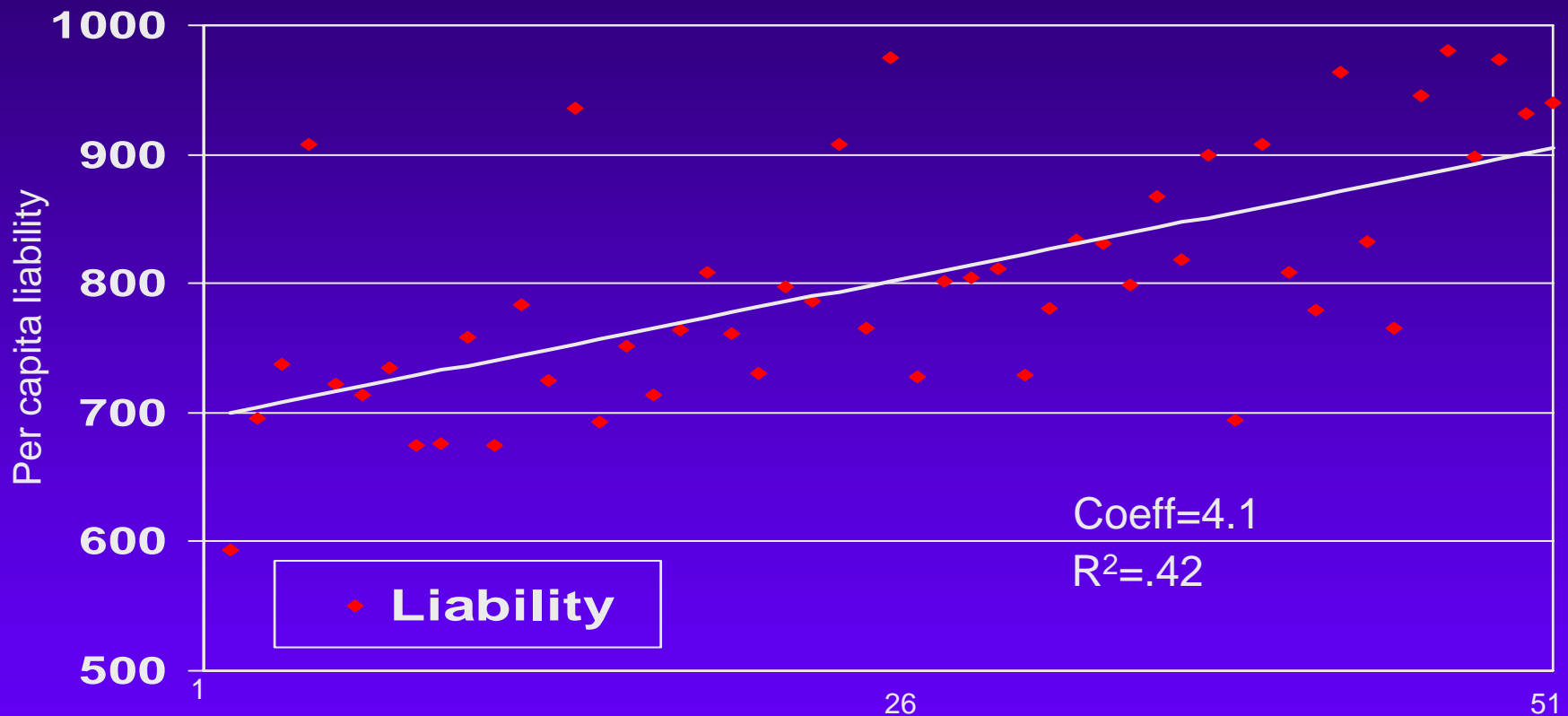
Relation between states' service use per beneficiary and quality of care, 2000



States in ascending order of adjusted service use per beneficiary

Source: MedPAC analysis of data from CMS and Jencks et al. 2003.

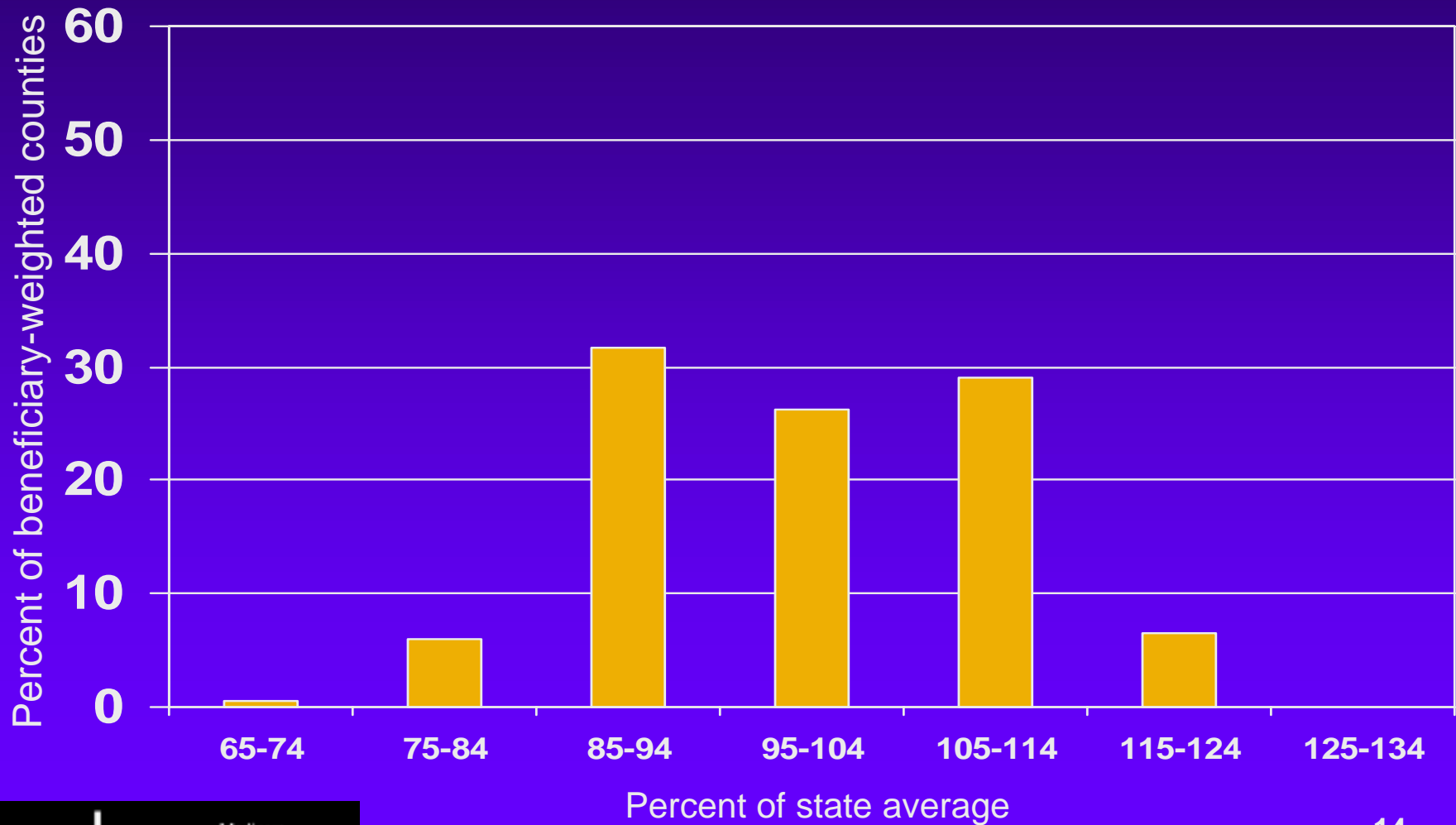
Relation between states' per beneficiary service use and beneficiary cost-share liability, 2000



States in ascending order of adjusted service use per beneficiary

Source: MedPAC analysis of CMS data.

Variation in county per capita service use (Iowa, 2000)



Summary of analysis

- The measure of Medicare payments that states' providers receive over a year is misleading for analyzing variation in Medicare spending
- Much variation is caused by
 - differences in costs of inputs
 - differences in use arising from differences in health status
 - differences in provider mix
- Much of remaining variation could be caused by
 - differences in practice patterns and
 - differences in beneficiaries' characteristics

Summary of analysis (continued)

- Higher quality does not follow from higher use
- Equalizing state payments by increasing use might increase beneficiaries' cost sharing in low-use states
- Causes of remaining variation probably not best addressed at the state level

Final policy observation

- Geographic spending disparities could become an even more divisive issue if, under a restructured Medicare program, private or public and private plans compete at the market area, state or regional level. Federal subsidies, beneficiary premiums or benefits would have to vary across geographic areas.