



NEW AMERICA
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Making Medicare Sustainable

Robert A. Berenson*, Len M. Nichols, and Tom Emswiler****

*** Urban Institute, **New America Foundation**

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Overview

- The Problem
- The Nature of the Solution
- The Long Term VBP Goal and some Useful Interim Steps
- Governance to Enable VBP

The Problem

- Medicare cost growth must be reduced
- Cassandra cries exaggerate short run
- Defense against Cassandra ignores Congressional history

Nature of the Solution

- Help Congress protect itself from temptation
- Create “Guardians”, Board of Directors
- Hold Guardians responsible for performance
- Turn Congress from focus on “how” to focus on “what” and “whether”

Value-Based Purchasing

- Is much broader concept than pay-for-performance
- It is about improving quality and reducing cost increases for particular services
- But VBP is also about obtaining a better mix of services provided to the population served

VBP Harnesses the Following:

- Provider eligibility requirements
- Benefit design
- Payment policies
- Coverage policies
- Technical assistance
- Consumer information and education
- Pay for performance
- Collaboration with purchasers and providers
- Direct intervention in care delivery
- Regulation

Should Medicare Act on Its Own to Reduce Costs?

- Does the manifest need for broad delivery system reform preclude Medicare-only VBP?
- Concerns about cost-shifting
- Concerns about Medicare overusing its market power
- But VBP inherently involves balancing access, cost and quality – built in restraint
 - See the SGR and why cuts not implemented

Why Medicare Can Act on Its Own?

- Medicare-specific actions can move the system and can be emulated by others
- Despite the reality of cost shifting, public and private payers share many common interests
 - It would be preferable to see more private payer engagement in Medicare policy-making
 - And collaborative purchasing – e.g., to figure out how to do better chronic care management

Medicare-Only Purchasing

- Only have to flatten the growth curve 1-2 percent
- Plenty of opportunities, but for the “de facto political entitlement” that providers enjoy
- In fact, Medicare has had some success with flattening the spending curve
 - Only 0.5% “excess growth” since 1997 – Chapin White

Some Cost Savings Opportunities

- The Dartmouth group emphasizes unneeded service volume – as much as 30 percent excessive spending
- Not enough appreciated is that prices paid in a program like Medicare can directly influence the volume of services
- The marketplace actually signals where there are distorted prices affecting volume
 - DRGs and specialty hospitals
 - RBRVS and physician entrepreneurial activities and self-referral

Medicare Should Have “Inherent Reasonableness” Authority

- Not just with DME (which it really doesn't get to use)
- CMS should be able to use discretion to make limited pricing changes based on clear marketplace evidence and then implement more systematic solutions to correct distortions

Improve Estimates of Average Costs

- Medicare correctly tries to pay average, rather than marginal, costs
- Yet, fees for high growth services are not adjusted to account for providers' ability to spread fixed costs over more units of service
 - In the Physician Fee Schedule, targeted cuts are possible and desirable, rather than an SGR-imposed across-the-board mechanism

Use Marketplace Prices Where Feasible

- See the sad story of DME competitive bidding
- Or the sadder story of private plan (section 1876, Medicare+Choice, Medicare Advantage) competitive pricing

Alter Prices to Accomplish Specific Policy Objectives

- That is, selective move from cost reimbursement where a compelling case to do so to reward different behavior
- Not the same as P4P operationally, but similar notion of altering incentives
- Current ripe opportunities:
 - Decrease re-hospitalizations by paying a reduced amount for them, within a defined period – note MedPAC is suggesting a form of this
 - Encourage physicians to do better with chronic care by creating new codes and raising payments (or providing a “medical home” payment

Other Opportunities to Produce Evidence-based Cost Savings

- Some require new legislative authority and others the ability to sustain political opposition where there is authority
 - Modifying the Medicare benefit package to provide “catastrophic coverage,” thereby reducing need for first dollar, supplemental insurance and the increased spending that produces. (Davis, Moon et al, Health Affairs, Oct, 4, 2005)
 - Permitting CMS to actually do comparative effectiveness and cost-effectiveness (Foote, JHPPL, Dec, 2002)

Governance to Enable VBP

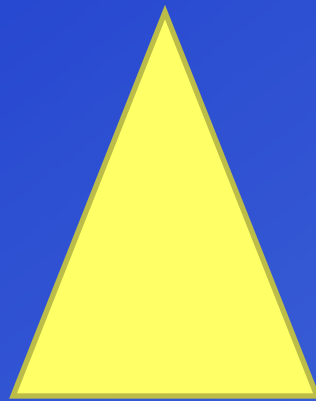
- Why MA plans are not the “cavalry”
- Key to Medicare reform: Enable Congress to delegate appropriately
- Case for enabling legislation: really hard choices loom
- Trick is delegation with accountability

Enabling Legislation

- Creates Guardians
 - Empowered and Accountable Board of Directors of the Medicare program
- Specifies performance criteria by which Guardians will be evaluated
- Specifies due process rules of information gathering, presentation, decision criteria

Current Law

Congress



CMS/HHS/WH

Stakeholders

Governance for VBP

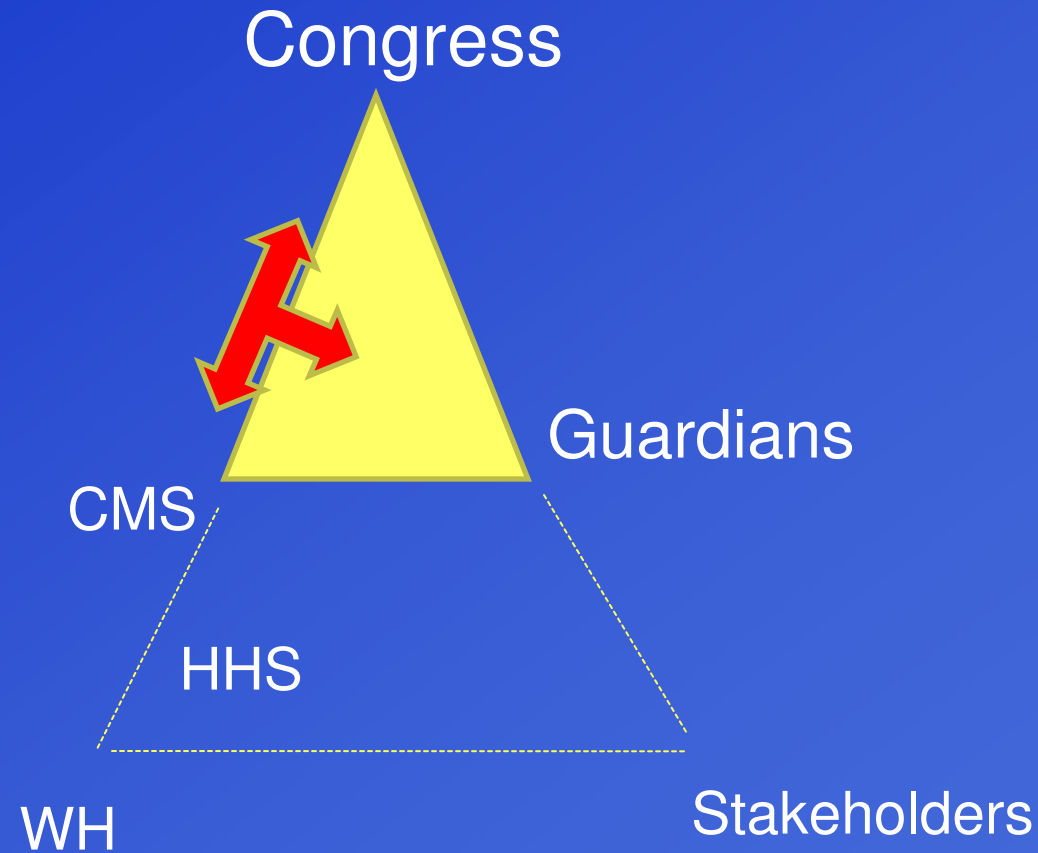
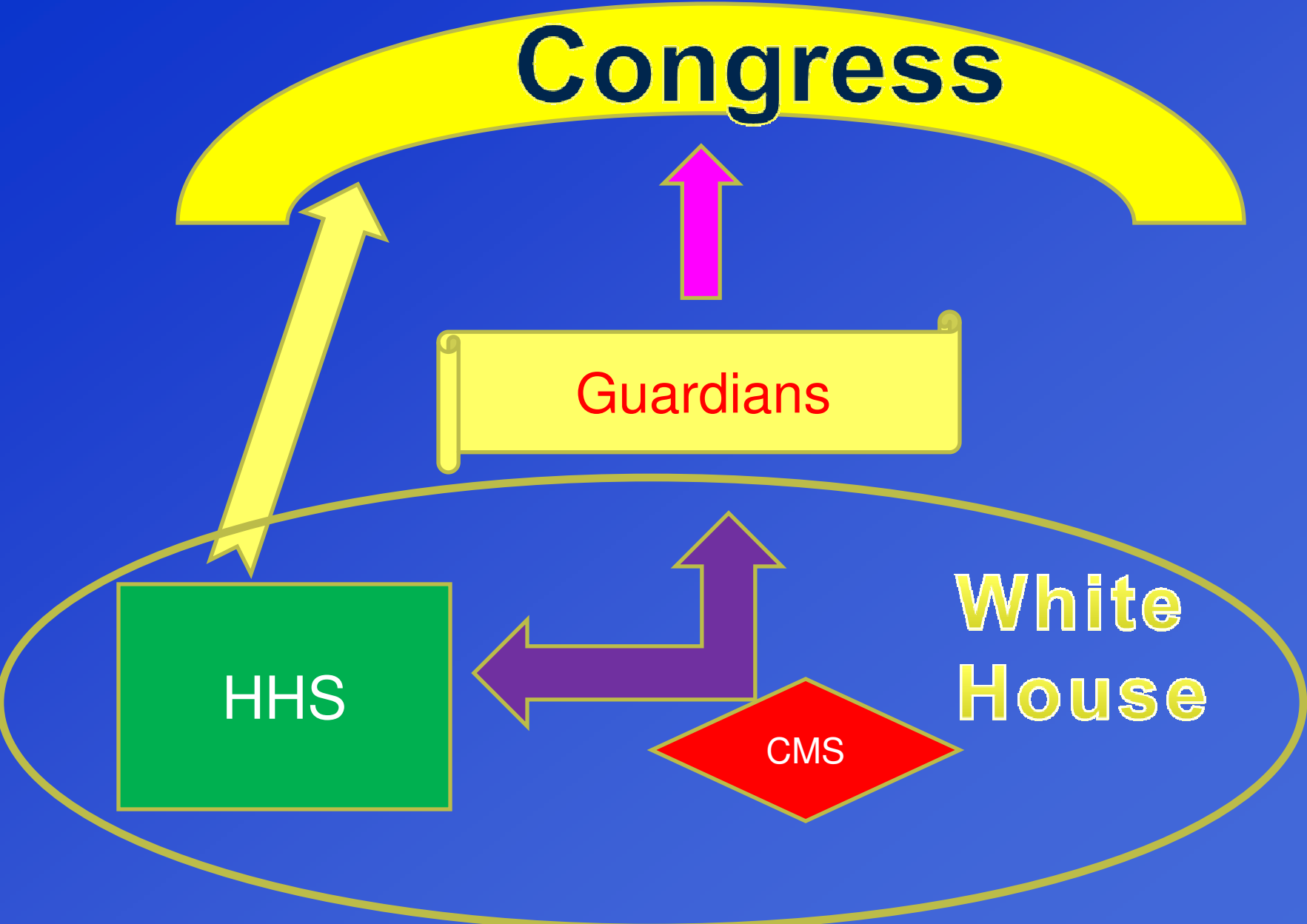


Figure 3. Guardian Flow Chart



Rules of Engagement, I

- Guardians appointed by Comptroller General, like MEDPAC
- Chair and Vice-Chair elected, confirmed by Senate
- Finance, HELP, Aging, and Budget all hold joint confirmation hearings

Rules of Engagement, II

- CMS reports to Guardians *and* HHS
- Guardians report to Congress, as does HHS
- Guardians decide who makes which “how” decisions
 - coverage, pricing, and administrative
 - due process required, of course

If Compliance with Performance Criteria Fails...

- Guardians report to Congress why not
- Guardians work with CMS to fix problem
- ... and with Congress about whether to change legislative criteria

IF Disagreements Arise...

- Congress can override specific Guardian decision with 60% majority in each house
- If White House disagrees with Guardians, it must engender a 2/3 vote
- Continued non-compliance with Guardians or repeated triggering of failed override votes = grounds for impeachment of Secretary of HHS

Conclusion

- Guardians would enable VBP to become a reality
- Guardians would strengthen Congressional hand in setting goals/targets/performance criteria
- Alternatives are possible, but Guardians are most effective at closest reach of Congress and White House