Medicare: Today's Issue
February 25, 2004

BETTER BENEFITS – MORE CHOICES

Good News about the Medicare Prescription Drug, Improvement and Modernization Act of 2003!

Regional PPOs – A New Payment System:

The new Medicare Prescription Drug, Improvement, and Modernization Act creates a new regional contracting option for health plans. Interested insurers can offer the preferred provider organization (PPO) plans, which will be called Medicare Advantage (MA) regional plans.

- The Medicare Advantage regional plans will have an entirely new model for bidding and payment – a model that blends the administered pricing system of local MA plans (previously Medicare+ Choice) with a bid-based system.

- Under this model, regional MA plans will place bids to provide medical benefits to a "typical" beneficiary in the region, where the typical beneficiary has the statistical average age and health status for Medicare beneficiaries in the nation.

- Plan bids are then compared to a benchmark price for the region. If a plan's bid is above this benchmark, then enrollees pay the difference between the bid and benchmark in the form of a beneficiary premium. If the bid comes in below the benchmark, then the plan will retain 75 percent of the difference as a rebate. The plans can use the rebate dollars to:
    - Provide extra benefits, including supplemental drug benefits,
    - Buy down the beneficiary's Part B premium,
    - Buy down the beneficiary's Part D drug premium, or
    - Any combination of the above.

- The government retains the remaining 25 percent of the difference, where half of this share will be used for plan entry and retention bonus payments (see Monday, February 23 issue on bonus payments).

- A key difference between the MA regional plans and the prior Medicare+ Choice model is the use of *blended benchmarks*. Each region will have its own blended benchmark, which will involve several steps to compute.

    - The blended benchmarks will consist of two components – a statutory component and a bid-based component.
        - The statutory component will be a weighted average of all the county payment rates in the region, with the weights being the number of Medicare beneficiaries residing in the county. This is an administered pricing mechanism, since the Centers for Medicare & Medicaid Services calculates these county rates based partially on the cost of providing traditional Medicare in those counties.

- The bid-based component will be a weighted average of all the MA regional bids submitted in a region, with the weights being the enrollment shares of each plan.
- These two components will be combined into a further weighted average to form the final blended benchmark. The weight on the statutory component is equal to the share of Medicare beneficiaries in the nation who are in traditional fee-for-service Medicare. The weight on the bid-based component is equal to the share of beneficiaries who are enrolled in private plans of all types (local and regional).

❖ A key goal of competitive reform and implication of this blended benchmark is that the more that Medicare Advantage plans succeed at attracting enrollees, the more that their payments will be based on plan bids – a key goal of competitive reform.