



Medicare Essential: Medicare Reform for the 21st Century

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Current Medicare Core Benefit – Fragmented and Complex

- **Beneficiaries buy 3 policies - Medicare, Medigap, Part D; complex, confusing, opportunities for risk selection**
- **High administrative costs**
- **Barrier to more integrated design with incentives to seek high-value care, primary care teams and accountable care networks**
- **Rationale for reform:**
 - **Savings opportunities for beneficiaries and payers while continuing to ensure access and financial protection for beneficiaries**
 - **Medicare can be a major force for payment and delivery system reform to improve outcomes, quality, and lower costs**
 - **Improve return on investment in health care, while freeing up resources for other societal priorities**



Medicare Essential: A New Option to Enhance Value

1. Single plan with comprehensive benefits, one premium, and lower administrative costs (replaces Part A, Part B, Part D, and supplemental coverage); default option beginning in 2014; Medicare Advantage and traditional Medicare continue; Medi-Gap minimum \$250 deductible
2. Comprehensive benefits with reduced and rationalized cost-sharing; single deductible (\$250) for hospital, physician, and other A/B services; \$20/\$40/\$50 copayment for primary care, specialty care, ED use; limit on patient costs (\$3400)
3. Single Rx formulary and pharmaceutical benefits manager negotiating drug prices; lower cost-sharing for generic and essential medications
4. Provider payment reform – blended/bundled/global provider payment options with value based-purchasing, shared savings
5. Reduced beneficiary cost-sharing for selecting high-value patient-centered medical homes and health systems.



Estimated Total Monthly Out-of-Pocket Costs for a Typical Medicare Beneficiary with Medicare Essential (Using Standard Providers and Using High-Value Providers), Compared with Traditional Medicare with Medigap and Part D, 2014

Estimated Monthly Expense	(1) Current Law: Medicare Plus Medigap Plan F Plus Part D	(2) Medicare Essential (Standard Providers)	(3) Net Difference [(2) – (1)]	(4) Medicare Essential (High-Value Providers)	(5) Net Difference [(4) – (1)]
Out-of-Pocket Costs for Medicare Covered Services:					
--Medical Care (Parts A and B)	\$0	\$80	\$80	\$40	\$40
--Prescription Drug (Part D)	\$48	\$36	-\$12	\$8	-\$40
Premiums:					
--Part B	\$127	\$127	\$0	\$127	\$0
--Part D	\$35	\$0	-\$35	\$0	-\$35
--Medigap Plan F	\$217	\$0	-\$217	\$0	-\$217
--Medicare Essential	\$0	\$111	\$111	\$79	\$79
Monthly Cost: Premiums plus Out-of-Pocket	\$427	\$354	-\$73	\$254	-\$173

Notes: Estimates reflect full implementation of Medicare Essential in 2014.
Source: Estimates provided by Actuarial Research Corporation based on ARC Medicare micro-model.



Changes In Health Expenditures with Medicare Essential Compared To Projected Spending, By Payer Source, \$ Billions

	2014-2018	2014-2023
National Health Expenditures	-\$12.9	-\$179.9
Federal Government	32.6	0.0
State and Local Government	-8.1	-27.0
Private Employers	-27.1	-89.9
Households/Beneficiaries	-10.3	-63.1

Notes: Projected spending under current law assumes replacement of sustainable growth rate formula with freeze of Medicare physician fees throughout the ten-year period. Assumes increased participation in Medicare Essential over time compared to traditional Medicare, with 90% of those in Medicare core program selecting the option by the end of the decade. Share of Medicare Advantage enrollment is assumed unchanged.

Source: Estimates provided to authors by Actuarial Research Corporation based on ARC Medicare micro-model.



Conclusion and Discussion

- **Potential to simplify and lower costs for beneficiaries**
- **Lower administrative costs and complexity**
- **Better financial protection for beneficiaries**
- **Creates incentives for beneficiaries to choose lower-cost, higher quality care**
 - **Supports spread of care system innovation**
- **Potential to reduce retiree-benefit costs for employers**
- **New choice to compete on level playing field with Medicare Advantage plans**
- **Inefficient Medigap plans likely to decline overtime**



Thank you!



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