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Medicare at 50—Moving Forward

Synopsis

The Medicare program must contend with serious challenges as it enters its 50th anniversary year, including rising expenditures, a fragmented, confusing benefit structure, and inadequate financial protections for some low-income beneficiaries and high users of services. In part 2 of their report, David Blumenthal, M.D., Karen Davis, and Stuart Guterman examine these challenges and discuss proposals for both incremental and comprehensive reform that could be taken up individually or as part of an integrated strategy.

January 28, 2015
Authors David Blumenthal, Karen Davis, and Stuart Guterman
Journal *New England Journal of Medicine*, published online Jan. 28, 2015
Contact David Blumenthal, M.D., President, The Commonwealth Fund, db@cmwf.org
Access to full article.

The Challenges Facing Medicare

The prospect of accelerated **growth in program expenditures** is probably the predominant factor driving Medicare reform efforts. While the dramatically slower growth in spending per enrollee in recent years is expected to continue for the next few years, program costs are likely to outpace growth in the overall economy as the projected number of beneficiaries rises from 52.3 million in 2013 to 81.8 million in 2030. An imperative that providers and payers throughout the health system face is **improving quality while containing costs.** With studies showing wide geographic variability in the treatment beneficiaries receive for the same condition, as well as in program spending, with no apparent relation to outcomes, there is concern about the level and consistency of the quality of care being provided. An older, sicker, and frailer Medicare population also suggests the need for better coordination of the range of services patients require. Improving quality in a cost-effective manner, the authors say, necessitates "changes at the front lines of health care delivery" that affect all patients, both inside and outside Medicare. Resolving the **complexity and fragmentation** of traditional Medicare coverage, with its hodgepodge of often confusing rules, regulations, premiums, copayments, and deductibles, is an additional challenge. Medicare also imposes **substantial out-of-pocket costs,** compelling many beneficiaries to purchase supplemental Medigap coverage or, if they qualify, turn to Medicaid for help. These costs, which consume 14 percent of household income on average, are a significant burden for poor beneficiaries and those with high health needs.

Incremental Reform

As the authors note, "Medicare payment continues to be based predominantly on a fee-for-service model that rewards providers for the volume and complexity of services provided." By modifying these built-in incentives, payment reform seeks to encourage the greater integration and coordination of services needed for effective care. Payment and organizational reforms currently being pursued include:

- *Value-based purchasing.* Since 2003, Medicare has been experimenting with ways to reward providers for improvements in quality and cost. Despite results that have been "mixed at best," the intuitive appeal of this approach is reflected in the Affordable Care Act, which requires Medicare to adopt value-based purchasing for physicians, hospitals, skilled nursing facilities, and home health. Financial incentives alone, however, may not be sufficient to alter provider behavior.

- *Blended payment.* Already used by some private insurers and state Medicaid agencies, blended payment combines four elements: a fee-for-service payment; a monthly, per-patient care management fee for patients served by an advanced primary care practice; quality-based bonuses; and shared savings. Early results show some promise and Medicare is testing the approach in primary care.
- *Bundled payment.* By setting a fixed price for a suite or "bundle" of services for treating a specified condition, payers hope to improve the coordination and efficiency of care. A Medicare initiative begun in 2013 is testing four bundled-payment models, but it is still too early to assess impacts on cost or quality.

"The complexity and fragmentation of Medicare coverage options hinder the development of consistent policies to promote improved performance."

- *Accountable care organizations (ACOs).* The Medicare Shared Savings Program and the more demanding Pioneer ACO pilot reward groups of providers that assume accountability for the cost and quality of care they deliver and enable them to share in the savings achieved. Early results are promising.
- *Global payment.* By providing advance payment to cover all or most of a patient's care needs, a global payment system can help to support the preventive services, care coordination, and nonmedical services necessary for optimal health and cost outcomes.

Comprehensive Reform

Premium support. Advocates of a market-based approach to health insurance have called for restructuring Medicare as a "premium support" program. Under a plan passed in 2014 as part of the House budget resolution, beneficiaries would receive a defined subsidy to purchase a standard benefit package from private plans or traditional Medicare, both of which would compete in a new Medicare marketplace. While federal spending is projected to be lower under this approach, beneficiaries could end up spending substantially more out of pocket, depending on the size of the subsidy. Critics argue that the proponents of premium support place undue faith in "the power of a private Medicare health insurance market to motivate health plans to meet beneficiaries' needs for high-quality, efficient services." Moreover, many beneficiaries—particularly those with cognitive impairments—are likely to have difficulty making informed plan choices. Proponents counter that increasing amounts of comparative data on plan performance are available to consumers, and that the new generation of Medicare beneficiaries will have ample experience with managed care and plan choice.

Reforming traditional Medicare. Some believe Medicare should more closely resemble employer-sponsored health plans, with one premium and one system of deductibles and copayments administered by the federal government. Such a change would "greatly simplify Medicare for both users and providers and lower administrative overhead," with costs controlled by incentivizing consumers to choose the highest-performing providers and aggressively pursuing the payment and organizational reforms outlined above. By resolving issues related to cost, quality, fragmentation, and coverage gaps, "a revamped Medicare might also compete much more effectively" with private plans in a premium support-type of marketplace.

The Bottom Line

As Medicare celebrates its 50th anniversary, policymakers have at their disposal a range of incremental and comprehensive reform options as they seek to strengthen the popular program and improve its coverage.

D. Blumenthal, K. Davis, and S. Guterman, "Medicare at 50—Moving Forward," *New England Journal of Medicine*, published online Jan. 28, 2015.

This summary was prepared by Chris Hollander.