

Mandated report on Medicare+Choice payment rates, payment areas, and risk adjustment

ISSUE: The plans that participate in Medicare Advantage (MA) are facing substantial changes. In 2004, the MA program began using a new system for setting local (county-level) payment rates, including the use of AAPCC rates, which are based on per capita local FFS spending. In addition, the MA program began using a new system for risk adjusting payments. In 2006, Medicare Advantage will have a new system of setting payments to local plans and will establish regional plans. The MMA directs MedPAC to complete a report that addresses three questions related to these changes. This brief provides analysis of one of the questions: what is the appropriate payment area for local plans? Our analysis builds on work presented at the September 2004 meeting.

KEY POINTS: Our analysis of the appropriate payment area for local plans focuses on the fact that counties—the current payment area—often have large year-to-year changes in per capita spending and that adjacent counties often have very different spending levels. Both these issues could be addressed with more populous payment areas. Creating a meaningful payment area, however, requires more than increasing the number of beneficiaries. Other important factors to consider are how well a payment area matches the market areas served by plans and variation in cost of serving beneficiaries within a payment area.

The alternatives to counties we consider all use counties as the building block. No one alternative is clearly superior to the others. One alternative provides the greatest increase over counties in number of beneficiaries, while a different alternative most accurately reflects plan market areas and has the lowest variation in cost of serving beneficiaries.

ACTION: At this meeting, staff seek the Commissioners' feedback on the content and methods staff have used and their thoughts on how to proceed as staff complete this study.

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