

M+C payment rates compared with county Medicare per capita fee-for-service spending (revised)

The purpose of this report is to present data on the level of Medicare+Choice (M+C) payment rates relative to the spending on similar beneficiaries in Medicare’s traditional fee-for-service program.

Before the Balanced Budget Act of 1997 (BBA), payment rates for private plans were set at 95 percent of a county’s per beneficiary spending under the traditional FFS program. The BBA instituted a new method for calculating payment rates for the M+C program that broke the direct link to county-level FFS spending. Under the BBA (and two subsequent acts), rates were the highest of three formula prongs; fixed dollar amounts or “floors,” a minimum guaranteed increase (2 percent) from prior year county rates, or a blend of local and national rates. The floor rates and the blended rates were updated using the rate of increase in national FFS spending. The two floor rates vary with the characteristics of a county. One floor applies to large urban areas, defined as metropolitan statistical areas containing more than 250,000 residents. The other floor rate applies to all other counties.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), altered the payments in several ways. The minimum update is now the greater of either 2 percent or the rate of projected national FFS spending growth (6.3 percent for 2004). In addition there are more blended rates for 2004. Finally, beginning in March 2004, a fourth prong is added to the formula—100 percent of the county’s per capita FFS spending. For the

fourth prong, FFS spending includes spending for indirect medical education (IME), even though the Medicare program will also continue to make IME payments to hospitals directly for M+C patients.

For 2004, M+C payment rates will be higher than, or equal to, average FFS spending in all counties. We find that about half (53 percent) of all Medicare beneficiaries and M+C enrollees (45 percent) live in counties where the M+C payment rates exceed average Medicare FFS spending by more than 5 percent in 2004. Table 1 illustrates the distribution of counties, Medicare beneficiaries, and M+C enrollees by the ratio of M+C payment rates to average Medicare FFS spending.

Table 1. Distribution of counties, Medicare beneficiaries, and M+C enrollees by the relationship between M+C payment rates and fee-for-service spending, 2004

Ratio of M+C rates to county per beneficiary FFS spending	Counties	Medicare beneficiaries	M+C enrollees
Total	100%	100%	100%
100-105	35	47	55
105-110	13	17	19
110-120	21	18	15
120 and above	31	18	12

Note: M+C (Medicare+Choice), FFS (fee-for-service). Totals may not sum to 100 due to rounding.

Source: MedPAC analysis of payment and county spending data from CMS.

Across all counties, Medicare is paying M+C plans an average of 107 percent of what it would cost to cover the current mix of M+C

enrollees under the traditional fee-for-service Medicare program. This estimate (along with all the other estimates in this report) assumes that the average health risk of the M+C and traditional enrollees are the same, other than those differences accounted for by demographic characteristics. If, as CMS has found, M+C plans enroll a less costly population than would be accounted for by demographics, Medicare would be paying M+C plans more than 107 percent of Medicare's spending under FFS.

The "100 percent of FFS" prong of the payment formula ensures that no county will have M+C payment rates below its average FFS spending. In fact, because of the additional payments made on behalf of M+C patients by the Medicare program directly to hospitals for IME, payments to plans in "100 percent of FFS" counties average 102 percent of the cost of covering demographically similar beneficiaries. (Table 2)

Table 2. Distribution of Medicare beneficiaries and M+C enrollees and the ratio of M+C payment rates to fee-for-service spending, by county characteristics, 2004

County characteristics	Medicare beneficiaries	M+C enrollees	Ratio of M+C rates to county per beneficiary FFS spending
Total	100%	100%	107%
2004 payment category			107
"100% FFS"	38	40	102
Blend	4	8	111
Large urban floor	26	26	116
Other floor	20	3	123
Minimum update	12	23	105
Urban	77	97	107
Rural	23	3	111
GME as share of FFS spending			
Low	27	20	103
Average	45	48	107
High	27	32	109

Note: M+C (Medicare+Choice), FFS (fee-for-service), GME (graduate medical education). The large urban floor applies to counties within metropolitan areas with more than 250,000 residents. The other floor applies to all other counties. Totals within county categories may not sum to 100 due to rounding.

Source: MedPAC analysis of payment and county spending data from CMS.

Payment rates for enrollees in "blend" counties (most of whom are in areas of northern California with a relatively high hospital price index) average 111 percent of FFS payment. By design, the payment formula's floors are set higher than FFS spending in many counties. Medicare pays 116 percent of FFS spending for enrollees in floor counties in large urban areas and 123 percent of FFS spending in floor counties in other areas. By contrast, in non-floor counties Medicare pays 104 percent of average FFS spending.

The minimum update component of the rate formula prevents county rates from declining, even if other portions of the formula would otherwise lower rates. Payment rates for enrollees in counties set by the minimum update average 105 percent of FFS costs for demographically similar beneficiaries. A good example of this rate protection occurs for counties with relatively high FFS hospital payments for graduate medical education (GME). Before the BBA, GME costs were included in the calculation of average FFS spending. The BBA removed (after a phase-in) GME costs from the calculation, and Medicare now pays teaching hospitals directly for GME for M+C enrollees. In many counties, the minimum update requirement has prevented rates from falling to account for the removal of the GME costs. As the proportion of FFS spending in a county accounted for by GME payments increases, so does the ratio of M+C payments to FFS costs, ranging from 103 percent of FFS for counties with a relatively small proportion of GME spending to 109 percent of FFS for counties with relatively high proportions of spending devoted to GME.

Staff Contact

Scott Harrison
(202) 220-3700

April 8, 2004